

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

GRANT WILLEY, Individually and On
Behalf of All Others Similarly Situated,

Plaintiff,

v.

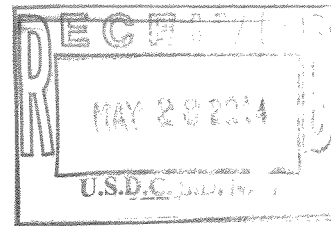
PROSPECT CAPITAL CORPORATION
JOHN F. BARRY III, and BRIAN H.
OSWALD,

Defendants.

14 CV 3796
No. 4

CLASS ACTION COMPLAINT FOR
VIOLATIONS OF THE FEDERAL
SECURITIES LAWS

JURY TRIAL DEMANDED



I. INTRODUCTION

1. Plaintiff, Grant Willey (“Plaintiff”), by his undersigned attorneys, alleges upon personal knowledge as to his own acts, and upon information and belief as to all other matters, based on the investigation conducted by and through Plaintiff’s counsel, which included, among other things, a review of the Defendants’ public documents, conference calls and announcements issued by Prospect Capital Corporation (“Prospect” or the “Company”), wire and press releases published by and regarding the Company, and advisories about the Company, and other information readily obtainable in the public domain.

II. NATURE OF THE ACTION

2. This is a federal securities class action on behalf of all investors who purchased or otherwise acquired Prospect’s common stock between September 14, 2009, and May 6, 2014, inclusive, (“Class Period”) for violations of the Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 promulgated thereunder.

3. Prospect is a financial services company that lends primarily to, and invests in, middle market privately-held companies in the United States and Canada. The Company primarily invests in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development and recapitalization. It is a closed-end investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, 15 U.S.C. §§80a-1 *et seq.*

4. After the market closed on May 6, 2014, the Company filed with the Securities Exchange Commission (the “SEC”) its Form 10-Q for the quarter ended March 31, 2014 disclosing that “the staff of the SEC has asserted that some of our wholly owned companies are investment companies for accounting purposes and are required to be consolidated by us.” Prospect further explained that “the near-term resolution of the issue will result in one of the following three outcomes”:

(1) no changes to our current accounting treatment;

(2) consolidation of such wholly-owned companies in the future for financial statement purposes but not for tax purposes; or

(3) restatement of our prior financial statements with certain wholly-owned companies consolidated for financial statement purposes but not for tax purposes.

5. Prospect’s 10-Q further disclosed that the Company was appealing the SEC staff’s decision to the SEC Chief Accountant.

6. On May 7, 2014, the day following this announcement, Prospect’s stock price fell 5% from a closing price of \$10.74 per share on May 6, 2014 to a closing price of \$10.20 per share on May 7, 2014 on heavy trading volume.

7. On May 12, 2014 after the market closed, Nicholas Financial, Inc. (“NFI”) announced that its Board of Directors held a special meeting to consider the status of NFI’s

proposed transaction with Prospect, pursuant to which NFI had agreed to sell all of its issued and outstanding common stock to an indirect wholly-owned subsidiary of Prospect. The NFI press release disclosed that “[b]ased on information provided by Prospect, the proposed [transaction] will not be consummated on or before June 12, 2014, as previously anticipated.” NFI further cautioned that:

“[T]he staff of the SEC has asserted that certain unconsolidated holding company subsidiaries through which [Prospect] hold[s] [its] investment in operating subsidiaries should be consolidated and consequently is delaying the effectiveness of [Prospect’s] registration statement on Form N-14 related to [the Arrangement].” Prospect further reported that it intends to appeal the staff’s decision to the SEC’s Chief Accountant and, if necessary, the Commission itself.

The Board will continue to monitor Prospect’s appeal of the SEC staff’s decision and to consider the various alternatives available with respect to the proposed Arrangement, including (without limitation) possible termination of the Arrangement Agreement.¹

8. Before the market opened on the following day, May 13, 2014, Prospect countered this negative news with an announcement that the Company had increased its five year \$1.0 billion revolving credit facility by \$45 to \$837.5 million in the aggregate. In the press release, Prospect’s Chief Credit Officer Steven Stone stated that, “The addition of new lenders demonstrates a continued interest in the Facility within the bank community.” The press release also reiterated that it was in discussions with SEC staff regarding the potential consolidation of wholly owned holding companies that hold majority owned operating companies.

9. Despite Prospect’s attempts to bolster investor confidence by touting the new \$45 million lender commitment, the pending SEC investigation into Prospect’s accounting practices and possible restatement, which now imperiled the NFI transaction, caused the stock price to continue its fall to close at \$9.81. As described by one market commentator, “***the possible SEC action is a major overhang for the stock.***” In total, the stock fell 9% over the five trading

¹ Emphasis supplied throughout unless otherwise noted.

sessions between May 7, 2014 and May 13, 2014 resulting in a loss of market capitalization of approximately \$294.74 million.

10. As alleged herein, Defendants' improper accounting and lack of adequate internal controls resulted in financial statements that were materially false and misleading. Defendants' misconduct caused Plaintiff and other members of the Class to purchase Prospect common stock at artificially inflated prices, thereby causing significant losses and damages.

III. JURISDICTION AND VENUE

11. The claims asserted herein arise under and are pursuant to Sections 10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§78j(b) and 78t(a), and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R. §240.10b-5.

12. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §1331 and Section 27 of the Exchange Act, 15 U.S.C. §78aa.

13. Venue is proper in this District pursuant to Section 27 of the Exchange Act and 28 U.S.C. §1391(b), as Prospect has its principal executive offices in this District and many of the acts and practices complained of herein occurred in substantial part in this District.

14. In connection with the acts alleged herein, Defendants, directly or indirectly used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

IV. PARTIES

15. Plaintiff Grant Willey, as set forth in his accompanying certification incorporated by reference herein, purchased Prospect common stock during the Class Period and has been damaged thereby.

16. Defendant Prospect Capital Corporation is a Maryland corporation with its principal place of business in New York, New York. Prospect is a closed-end investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, 15 U.S.C. §§80a-1 *et seq.* The Company lends primarily to, and invests in, middle market privately-held companies in the United States and Canada. Prospect is managed by Prospect Capital Management LLC.

17. Defendant John F. Barry III (“Barry”) has been the Chief Executive Officer and Chairman of the Board at Prospect at all relevant times. Barry signed each of the Sarbanes Oxley (“SOX”) certifications during the Class Period attesting that Prospect’s financial statements were accurate and that its systems of internal controls were adequate.

18. Defendant Brian H. Oswald (“Oswald”) has been the Chief Financial Officer and Treasurer of Prospect at all relevant times. Oswald signed each of the SOX certifications during the Class Period attesting that Prospect’s financial statements were accurate and that its systems of internal controls were adequate.

19. Defendants Barry and Oswald are referred to as the Individual Defendants.

20. Because of the Individual Defendants’ positions within the Company, they had access to undisclosed information about Prospect’s business, operations, structure, accounting methodology and financial statements via access to internal corporate documents, conversations and connections with other corporate officers and employees, attendance at management and Board meetings and committees thereof and via reports and other information provided to them in connection therewith.

21. Each of the Individual Defendants, by virtue of their high-level positions with the Company, directly participated in the management of the Company, were directly involved in the

day-to-day operations of the Company at the highest levels and were privy to confidential proprietary information concerning the Company and its business, operations, structure, accounting methodology and financial statements, as alleged herein. Defendants were involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein, were aware, or recklessly disregarded, that the false and misleading statements were being issued regarding the Company, and approved or ratified these statements, in violation of the federal securities laws.

22. As officers and directors of a publicly-held company whose common stock was, and is, registered with the SEC pursuant to the Exchange Act, and was and is traded on the NASDAQ, and governed by the provisions of the federal securities laws, Defendants each had a duty to disseminate prompt, accurate and truthful information with respect to the Company's financial condition and performance, operations, structure, financial statements, business, markets, management, earnings and present and future business prospects, and to correct any previously-issued statements that had become materially misleading or untrue, so that the market price of the Company's publicly-traded common stock would be based upon truthful and accurate information. Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

23. Defendants, because of their positions of control and authority as officers and/or directors of the Company, were able to and did control the content of the various SEC filings, press releases and other public statements pertaining to the Company during the Class Period. Each Defendant was provided with copies of the documents alleged herein to be misleading prior to or shortly after their issuance and/or had the ability and/or opportunity to prevent their issuance or cause them to be corrected. Accordingly, each of the Defendants is responsible for

the accuracy of the public reports and releases detailed herein and are therefore primarily liable for the representations contained therein.

24. Each of the Defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Prospect common stock by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (i) deceived the investing public regarding Prospect's financial statements, business, operations and the intrinsic value of its common stock and (ii) caused Plaintiff and other shareholders to purchase Prospect common stock at artificially inflated prices.

V. CLASS ACTION ALLEGATIONS

25. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and 23(b)(3) on behalf of all those who purchased or otherwise acquired the common stock of Prospect during the Class Period and who were damaged thereby. Excluded from the Class are Defendants, the officers and directors of the Company, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

26. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Prospect common shares were actively traded on the NASDAQ exchange. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Prospect or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

27. Plaintiff's claims are typical of the claims of the members of the Class, as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

28. Plaintiff will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class and securities litigation.

29. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by Defendants' acts as alleged herein;

(b) whether statements made by Defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of Prospect; and

(c) to what extent the members of the Class have sustained damages and the proper measure of those damages.

30. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

VI. SUBSTANTIVE ALLEGATIONS

31. Prospect was founded in 1988 by former Merrill Lynch & Co. managers. It completed an initial public offering in July 2004 and currently trades on the NASDAQ. Prospect is a closed-end investment company (meaning that it has a fixed number of shares), which has elected to be regulated as a business development company under the Investment Company Act.

32. A business development company (often referred to as a “BDC”) is similar to a venture capital fund or a private equity fund in that it provides a way for the public to invest in small companies and to participate in the proceeds of the sale of those investments.

33. Prospect conducts a substantial portion of its lending and investing functions through various subsidiaries.

34. Under basic accounting principles, a parent generally must consolidate any subsidiary that it controls. Although control is typically defined as ownership of more than 50% of another entity’s voting shares, the Investment Company Act sets a lower threshold:

“Control” means the power to exercise a controlling influence over the management or policies of a company, unless such power is solely the result of an official position with such company.

Any person who owns beneficially, either directly or through one or more controlled companies, more than 25 per centum of the voting securities of a company shall be presumed to control such company.

15 U.S.C. § 80a-2(a)(9).

35. However, under the Investment Company Act, Article 6 of Regulation S-X and ASC 946, an investment company is precluded from consolidating any entity other than another investment company or an operating company which provides substantially all of its services and benefits to the investment company. Thus, the nature of the subsidiary determines whether it should be consolidated with the investment company parent.

A. Prospect Used Improper and Deceptive Accounting Practices

36. Stated most simply, Prospect is in the business of lending and investing. For certain of its investments, Prospect has created a structure pursuant to which it invests in the underlying operating entity through a holding company. More specifically, the outstanding voting securities of the controlled investment (the operating entity) are held in a holding company owned by Prospect. The holding company, in turn, wholly-owns/funds the underlying controlled operating company. The holding company then issues debt and/or equity, which is held by Prospect. Thus, Prospect wholly-owns the holding companies which fund operating entities which are controlled by Prospect. As explained below, this structure allows Prospect to record greater income from the operating companies than the operating companies are actually earning.

37. For example, Prospect owns First Tower, which is one of Prospect's largest operating companies. Prospect invests in First Tower (the operating entity) via a pass through holding company structure. Prospect explained the structure in a March 20, 2012 Press Release as follows:

As consideration for Prospect's investment of \$266 million, the holding company will issue approximately \$226 million of holding company debt and approximately \$40 million of holding company equity to Prospect. Pro forma for the transaction, the holding company will in turn own 80.1% of the First Tower operating company equity alongside management's 19.9% ownership stake.²

38. Prospect's method of accounting for First Tower (and the other similar holding companies) substantially lessens the degree of transparency into the Company's operations and financial results. Using First Tower as an example, a recent news article made the following observations:

² Available at <http://www.marketwired.com/press-release/prospect-capital-corporation-agrees-provide-debt-equity-accretive-acquisition-first-nasdaq-psec-1633565.htm>

First, Prospect Capital management noted on the conference call that it had previously recorded more interest and fee income from its operating companies than the operating companies earned. They insist that their focus remains on cash flow, and thus, so long as cash flow covers cash paid back to Prospect by their operating companies, there shouldn't be a problem.

If consolidated, however, Prospect Capital would only be able to report a portfolio company's reported net income in any given quarter. Since the companies' net income has been historically lower than the amount of interest and dividends paid to Prospect Capital, restated earnings would be lower.

Secondly, there's the issue of leverage. BDCs are limited to 1:1 leverage. *Should the financials of its operating companies be consolidated into Prospect Capital's results, Prospect Capital will have significantly higher debt levels than reported today.* In First Tower's case, there is roughly \$272 million of additional, third-party debt that would have to be reported on the Prospect Capital balance sheet, which could affect its required 1:1 leverage limit imposed on BDCs. . . .

The complexities of the current accounting methodologies make it difficult to understand the true profitability of Prospect Capital's operating companies.

This quarter, Nationwide Acceptance and Credit Central, *two of Prospect Capital's operating companies, paid Prospect Capital dividends of \$5 million and \$2 million respectively. However, this same quarter, Prospect Capital invested a combined \$6.5 million in the two companies.*

The accounting as it exists today makes this a bit of a shell game to those looking in from the outside. Prospect loaned its portfolio companies \$5.525 million, added \$975,000 in equity, then paid itself dividends of \$7 million.

Said another way, *\$6.5 million left Prospect Capital to go to Nationwide Acceptance and Credit Central. Then, \$7 million came back to Prospect Capital (on the income statement) as a dividend.* Of course, there are adjustments to the equity valuations likely as a result of the dividends paid, but the impact is murky at best.

Equity is valued with "unobservable inputs," and any adjustment to expected future business volumes, a change in unknown discount rates, or movement in default rates on Nationwide Acceptance and Credit Central's loan book, etc. could have just as much effect on the equity line as a dividend.

39. The concerns attendant to unconsolidated financial statements are reflected in SEC Regulation S-X, 17 CFR §210.3A-02, which states the general proposition that: "There is a presumption that consolidated statements are more meaningful than separate statements and that

they are usually necessary for a fair presentation when one entity directly or indirectly has a controlling financial interest in another entity.”

40. Moreover, in late 2013, the SEC issued clear and unequivocal guidance indicating that Prospect’s wholly owned holding companies should be accounted for as investment companies and therefore must be consolidated into Prospect’s financial statements. This guidance, which became effective on December 15, 2013, was the subject of extensive discussion by the accounting industry in papers, panels and presentations widely available in the public domain. Thus, Defendants’ failure or refusal to consolidate the results of its wholly-owned holding company subsidiaries is in violation of GAAP.

41. However, because Prospect controlled the operating companies through its ownership of the holding companies, even under prior generally accepted accounting principles, Prospect was required to provide financial results which included the consolidated results of its wholly-owned holding companies and operating subsidiaries.

B. The Truth Begins to Emerge

42. On December 17, 2013, Prospect entered into a definitive agreement to acquire 100% of the common stock of Nicholas Financial, Inc. (“NFI”).

43. On or about January 13, 2014, Prospect filed a Registration Statement under the Securities Act of 1933 on Form N-14 with the SEC, which contained detailed information about each of the companies and the proposed transaction.

44. In reviewing the Form N-14, the SEC began to scrutinize Prospect’s accounting treatment of the Company’s wholly-owned subsidiaries that acted as the holding companies of certain controlled investments.

45. On May 6, 2014, Prospect announced that, “the staff of the SEC has asserted that some of our wholly owned companies are investment companies for accounting purposes and are required to be consolidated by us.” Prospect further announced that it had appealed the ruling to the SEC Chief Accountant.

46. The SEC staff concluded that Prospect’s wholly-owned subsidiaries that serve as the holding companies of certain controlled investments are in effect an extension of Prospect’s main operations. The basic rationale is that these holding companies are distributing loans for investment income and capital appreciation to the operating companies, which is the same function as Prospect’s business operations. As a result, the SEC staff informed Prospect that these holding companies should be treated as investment companies under Generally Accepted Accounting Principles and be consolidated at the parent level, which would necessitate an extensive restatement of Prospect’s financial statements.

47. As one source further explained:

[F]rom the SEC’s perspective, the problem that arises is [Prospect] first provides financing/capital to the wholly-owned subsidiaries (holding companies of the controlled investments). [Prospect’s] wholly-owned holding companies then fund the underlying operating companies of the controlled investment. As such, the SEC’s argument is that [Prospect’s] wholly-owned subsidiaries (the holding companies of the control investments) are basically an “*extension*” of [Prospect’s] business operation and thus should also be considered an investment company per GAAP. Therefore, [Prospect’s] wholly-owned investment company subsidiaries (the holding companies of the controlled investments) should be consolidated into the parent’s financials. Since the holding companies typically own/are affiliated with the underlying operating companies, the entire organizational entity (assets, liabilities, equity, and earnings) should be consolidated with intercompany balances reconciled and non-controlling/minority interests reversed-out.

48. On the news of the SEC staff's ruling and the possible restatement, Prospect's stock price dropped 5% from a closing price of \$10.74 per share on May 6, 2014 to a closing price of \$10.20 per share on May 7, 2014 on heavy trading volume.

49. Then, on May 12, 2014 after the market closed, NFI announced that its Board of Directors held a special meeting to consider the status of NFI's proposed transaction with Prospect and that the transaction would not close on June 12, 2014, as initially projected. NFI further disclosed that the Board would "continue to monitor Prospect's appeal of the SEC staff's decision" and would "consider the various alternatives available with respect to the proposed Arrangement, *including (without limitation) possible termination of the Arrangement Agreement.*"

50. Before the market opened on the following day, May 13, 2014, Prospect attempted to counter this negative news with an announcement that the Company had increased its five year \$1.0 billion revolving credit facility by \$45 to \$837.5 million in the aggregate. Prospect's Chief Credit Officer Steven Stone touted the development as "demonstrate[ing] a continued interest in the Facility within the bank community."

51. Despite Prospect's attempts to bolster investor confidence, the pending SEC investigation into Prospect's accounting practices and possible restatement, which now imperiled the NFI transaction, caused Prospect's stock price to continue its fall to close at \$9.81. In fact, trading was so volatile on the morning of May 13, 2014 (more than 2 million shares were traded between during the 35 minute window between 9:40 am and 10:15 am) that one commentator described the Company as having suffered a "flash crash" and further explained that the cause was "*likely related to the potential consolidation of certain holding companies.*"

52. In total, the stock fell 9% over the five trading sessions between May 7, 2014 and May 13, 2014 resulting in a loss of market capitalization of approximately \$294.74 million. Market commentators attribute this decline to Prospect's accounting irregularities, noting that *"the possible SEC action is a major overhang for the stock."*

53. The market's strong reaction to these events is due to the sweeping restatement that will be necessitate if the SEC Chief Accountant affirms the staff's decision regarding Prospect's improper accounting methods. Although it is not possible at this time to identify all items that will need to be adjusted, the consolidation of a parent's subsidiary generally impacts a number of line items, including *inter alia* Intracompany Loan Assets, Intracompany Loan Liabilities, Total Assets, Total Liabilities and Retained Earnings and is likely to reveal previously undisclosed information, as discussed above. Thus, it is believed that Prospect's financial statements were materially false and misleading, as described in more detail below.

C. False and Misleading Statements

54. The Class Period in this action begins on September 14, 2009. On that day, the Company issued a press release announcing its fourth fiscal quarter and fiscal year ended June 30, 2009, financial results. The press release was entitled "Prospect Capital Announces 31% Year-Over-Year Increase in Net Investment Income for Fiscal Year Ended June 30, 2009". The press release falsely stated, in part, as follows:

Prospect Capital Corporation (NASDAQ: PSEC) ("Company" or "Prospect") today announced financial results for its fourth fiscal quarter and fiscal year ended June 30, 2009.

For the year ended June 30, 2009, our net investment income was \$59.2 million, or \$1.87 per weighted average number of shares for the year, an increase of 31% from the prior year on a dollars basis, and comparable to the prior year per weighted average share amount of \$1.91. Our net asset value per share on June 30, 2009 stood at \$12.40 per share.

For the quarter ended June 30, 2009, our net investment income was \$12.0 million, or 32 cents per weighted average number of shares for the quarter. We estimate that our net investment income for the current first fiscal quarter ended September 30, 2009 will be 25 to 30 cents per share. These temporary per share changes from prior quarters are primarily due to the raising of additional capital to fund the acquisition of Patriot Capital Funding, Inc. (NASDAQ: PCAP) (“Patriot”), the benefits of which will be reflected in our future financial results after the Patriot closing projected in the fourth quarter. We expect the Patriot acquisition to be significantly accretive to net investment income per quarter in an amount approximating at least 9 to 10 cents per share, which could be greater with early repayments before scheduled maturity dates, as has occurred with multiple prior Patriot transactions. In addition, we are currently evaluating a pipeline of potential additional portfolio and individual investment opportunities, aggregating more than \$1 billion, for which we have significant cash and credit facility availability on hand.

We expect to announce our first fiscal quarter dividend later this month.

OPERATING RESULTS

HIGHLIGHTS

Equity Values:

Net assets as of June 30, 2009: \$532.60 million

Net asset value per share as of June 30, 2009: \$12.40

Fiscal Year Operating Results:

Net investment income: \$59.16 million

Net investment income per share: \$1.87

Dividends declared to shareholders per share: \$1.6175

Fourth Fiscal Quarter Operating Results:

Net investment income: \$11.98 million

Net investment income per share: \$0.32

Dividends declared to shareholders per share: \$0.40625

Fourth Fiscal Quarter Portfolio Activity:

Total Portfolio investments at cost: \$531.42 million

Number of portfolio companies at end of period: 30

* * *

LIQUIDITY AND FINANCIAL RESULTS

On June 25, 2009, we completed a first closing on an expanded \$250 million syndicated revolving credit facility (the “Facility”). The new Facility, for which lenders have closed on \$175 million to date, includes an accordion feature which allows the Facility to accept up to an aggregate total of \$250 million of commitments for which we continue to solicit

additional commitments from other lenders for the additional \$75 million. The revolving period of the Facility extends through June 2010, with an additional one year amortization period after the completion of the revolving period. The maturity date of the facility is June 2020. Interest on borrowings under the credit facility is one-month LIBOR plus 400 basis points, subject to a minimum Libor floor of 200 basis points. The facility has an investment grade Moody's rating of A2.

We expect to close on an additional lender commitment, for which lender credit committee approval has already occurred but for which signed documentation has not yet been received, in the next 30 days, bringing our facility size to \$195 million and our number of lenders to five, providing counterparty diversification benefits.

As of June 30, 2009, we had \$124.8 million outstanding under our credit facility. We currently have zero outstanding borrowings in our facility, as well as cash-equivalent instruments of approximately \$60 million. Our unleveraged balance sheet is a source of significant strength in comparison with many overleveraged competitors. Our equitized balance sheet also gives us the potential for future earnings upside as we prudently grow our revolving credit facility and evaluate term debt solutions driven by our Facility's investment grade facility rating.

We also continue to generate liquidity through stock offerings and the realization of portfolio investments. On March 19, April 27, May 26, July 7, and August 20, 2009, we completed stock offerings aggregating 21,567,186 shares of our common stock, raising approximately \$180.7 million in gross proceeds.

In the second quarter of the fiscal year ended June 30, 2009, we announced the authorization by our board of directors to repurchase up to \$20 million of our outstanding stock. To date, we have not made any such repurchases, but we continue to maintain the flexibility to do so should we deem such purchases to be in the best interest of our shareholders.

On April 30, 2009, we gave a 60-day notice to Vastardis Fund Services LLC ("Vastardis") regarding termination, effective June 30, 2009, of the agreement with Vastardis to provide sub-administration services. The prior cost of this agreement had been approximately \$700 thousand per annum based on approximately \$600 million of assets. With our chief financial officer having expanded his finance and administration team in recent months, we no longer require any services from Vastardis.

55. On September 14, 2009, the Company filed with the SEC its Form 10-K, announcing its fourth fiscal quarter and fiscal year ended June 30, 2009, financial results, which falsely reported the same financial information as the press release dated and released the same day. Specifically, the Form 10-K falsely reported the following:

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
(in thousands, except share and per share data)

	<u>June 30,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>
Assets (Note 10)		
Investments at fair value (net cost of \$531,424 and \$496,805, respectively, Note 3)		
Control investments (net cost of \$187,105 and \$203,661, respectively)	\$ 206,332	\$ 205,827
Affiliate investments (net cost of \$33,544 and \$5,609, respectively)	32,254	6,043
Non-control/Non-affiliate investments (net cost of \$310,775 and \$287,535, respectively)	<u>308,582</u>	<u>285,660</u>
Total investments at fair value	<u>547,168</u>	<u>497,530</u>
Investments in money market funds	98,735	33,000
Cash	9,942	555
Receivables for:		
Interest, net	3,562	4,094
Dividends	28	4,248
Loan principal	—	71
Other	571	567
Prepaid expenses	68	273
Deferred financing costs	<u>6,951</u>	<u>1,440</u>
Total Assets	<u>667,025</u>	<u>541,778</u>
Liabilities		
Credit facility payable (Note 10)	124,800	91,167
Dividends payable	—	11,845
Due to Prospect Administration (Note 7)	842	695
Due to Prospect Capital Management (Note 7)	5,871	5,946
Accrued expenses	2,381	1,104
Other liabilities	<u>535</u>	<u>1,398</u>
Total Liabilities	<u>134,429</u>	<u>112,155</u>
Net Assets	<u>\$ 532,596</u>	<u>\$ 429,623</u>
Components of Net Assets		
Common stock, par value \$0.001 per share (100,000,000 and 100,000,000 common shares authorized, respectively; 42,943,084 and 29,520,379 issued and outstanding, respectively) (Note 5)	\$ 43	\$ 30
Paid-in capital in excess of par	545,707	441,332
Undistributed net investment income	24,152	1,508
Accumulated realized losses on investments	(53,050)	(13,972)
Unrealized appreciation on investments	<u>15,744</u>	<u>725</u>
Net Assets	<u>\$ 532,596</u>	<u>\$ 429,623</u>
Net Asset Value Per Share	<u>\$ 12.40</u>	<u>\$ 14.55</u>
	Year Ended	

	June 30, 2009	June 30, 2008	June 30, 2007
Investment Income			
Interest income:			
Control investments (Net of foreign withholding tax of \$166, \$230, and \$178, respectively)	\$ 19,281	\$ 21,709	\$ 13,500
Affiliate investments (Net of foreign withholding tax of \$—, \$70, and \$237, respectively)	3,039	1,858	3,489
Non-control/Non-affiliate investments	40,606	35,466	13,095
Total interest income	<u>62,926</u>	<u>59,033</u>	<u>30,084</u>
Dividend income			
Control investments	22,468	11,327	3,400
Money market funds	325	706	2,753
Total dividend income	<u>22,793</u>	<u>12,033</u>	<u>6,153</u>
Other income: (Note 4)			
Control/affiliate investments	1,249	1,123	230
Non-control/Non-affiliate investments	13,513	7,213	4,214
Total other income	<u>14,762</u>	<u>8,336</u>	<u>4,444</u>
Total Investment Income	<u>100,481</u>	<u>79,402</u>	<u>40,681</u>
Operating Expenses			
Investment advisory fees:			
Base management fee (Note 7)	11,915	8,921	5,445
Income incentive fee (Note 7)	14,790	11,278	5,781
Total investment advisory fees	<u>26,705</u>	<u>20,199</u>	<u>11,226</u>
Interest and credit facility expenses	6,161	6,318	1,903
Sub-administration fees (including former Chief Financial Officer and Chief Compliance Officer)	846	859	567
Legal fees	947	2,503	1,365
Valuation services	705	577	395
Audit, compliance and tax related fees	1,015	470	599
Allocation of overhead from Prospect Administration (Note 7)	2,856	2,139	532
Insurance expense	246	256	291
Directors' fees	269	253	230
Other general and administrative expenses	1,035	715	442
Excise taxes	533	—	—
Total Operating Expenses	<u>41,318</u>	<u>34,289</u>	<u>17,550</u>
Net Investment Income	<u>59,163</u>	<u>45,113</u>	<u>23,131</u>
Net realized (loss) gain on investments	(39,078)	(16,222)	1,949
Net change in unrealized appreciation (depreciation) on investments	15,019	(1,300)	(8,352)
Net Increase in Net Assets Resulting from Operations	<u>\$ 35,104</u>	<u>\$ 27,591</u>	<u>\$ 16,728</u>
Net increase in net assets resulting from operations per share: (Note 6 and Note 8)	<u>\$ 1.11</u>	<u>\$ 1.17</u>	<u>\$ 1.06</u>
Weighted average shares of common stock outstanding:	<u>31,559,905</u>	<u>23,626,642</u>	<u>15,724,095</u>
		Year Ended	

	June 30, 2009	June 30, 2008	June 30, 2007
Increase in Net Assets from Operations:			
Net investment income	\$ 59,163	\$ 45,113	\$ 23,131
Net realized (loss) gain on investments	(39,078)	(16,222)	1,949
Net change in unrealized appreciation (depreciation) on investments	15,019	(1,300)	(8,352)
Net Increase in Net Assets Resulting from Operations	<u>35,104</u>	<u>27,591</u>	<u>16,728</u>
Dividends to Shareholders	<u>(36,519)</u>	<u>(39,513)</u>	<u>(27,542)</u>
Capital Share Transactions:			
Net proceeds from capital shares sold	100,304	140,249	197,558
Less: Offering costs of public share offerings	(1,023)	(1,505)	(874)
Reinvestment of dividends	5,107	2,753	5,908
Net Increase in Net Assets Resulting from Capital Share Transactions	<u>104,388</u>	<u>141,497</u>	<u>202,592</u>
Total Increase in Net Assets:	<u>102,973</u>	<u>129,575</u>	<u>191,778</u>
Net assets at beginning of year	429,623	300,048	108,270
Net Assets at End of Year	<u>\$ 532,596</u>	<u>\$ 429,623</u>	<u>\$ 300,048</u>

Capital Share Activity:			
Shares sold	12,942,500	9,400,000	12,526,650
Shares issued through reinvestment of dividends	480,205	171,314	352,542
Net increase in capital share activity	13,422,705	9,571,314	12,879,192
Shares outstanding at beginning of year	29,520,379	19,949,065	7,069,873
Shares Outstanding at End of Year	<u>42,943,084</u>	<u>29,520,379</u>	<u>19,949,065</u>
	Year Ended		

	June 30, 2009	June 30, 2008	June 30, 2007
Cash Flows from Operating Activities:			
Net increase in net assets resulting from operations	\$ 35,104	\$ 27,591	\$ 16,728
Net realized loss (gain) on investments	39,078	16,239	(1,947)
Net change in unrealized (appreciation) depreciation on investments	(15,019)	1,300	8,352
Accretion of original issue discount on investments	(2,399)	(2,095)	(1,808)
Amortization of deferred financing costs	759	727	1,264
Change in operating assets and liabilities:			
Payments for purchases of investments	(98,305)	(311,947)	(167,255)
Proceeds from sale of investments and collection of investment principal	27,007	127,212	38,407
Purchases of cash equivalents	(39,999)	(274,949)	(259,887)
Sales of cash equivalents	39,999	274,932	259,885
Net (increase) decrease investments in money market funds	(65,735)	8,760	(40,152)
Decrease (increase) in interest receivable, net	532	(1,955)	(500)
Decrease (increase) in dividends receivable	4,220	(3,985)	(250)
Decrease (increase) in loan principal receivable	71	(71)	385

Decrease in receivable for securities sold	—	—	369
Decrease in receivable for structuring fees	—	1,625	—
Decrease in due from Prospect Administration	—	—	28
Decrease in due from Prospect Capital Management	—	—	5
Increase in other receivables	(4)	(296)	(1,896)
Decrease (increase) in prepaid expenses	205	198	(394)
(Decrease) increase in payables for securities purchased	—	(70,000)	32
Increase in due to Prospect Administration	147	365	330
(Decrease) increase in due to Prospect Capital Management	(75)	1,438	3,763
Increase (decrease) in accrued expenses	1,277	(208)	469
(Decrease) increase in other liabilities	(863)	1,094	182
Net Cash Used In Operating Activities:	<u>(74,000)</u>	<u>(204,025)</u>	<u>(143,890)</u>
Cash Flows from Financing Activities:			
Borrowings under credit facility	100,157	238,492	—
Payments under credit facility	(66,524)	(147,325)	(28,500)
Financing costs paid and deferred	(6,270)	(416)	(2,660)
Net proceeds from issuance of common stock	100,304	140,249	197,558
Offering costs from issuance of common stock	(1,023)	(1,505)	(874)
Dividends paid	(43,257)	(24,915)	(21,634)
Net Cash Provided By Financing Activities:	<u>83,387</u>	<u>204,580</u>	<u>143,890</u>
Total Increase in Cash	9,387	555	—
Cash balance at beginning of year	555	—	—
Cash Balance at End of Year	<u>\$ 9,942</u>	<u>\$ 555</u>	<u>\$ —</u>
Cash Paid For Interest	<u>\$ 5,014</u>	<u>\$ 4,942</u>	<u>\$ 639</u>
Non-Cash Financing Activity:			
Amount of shares issued in connection with dividend			5,908
reinvestment plan	<u>\$ 5,107</u>	<u>\$ 2,753</u>	<u>\$ —</u>

56. The September 14, 2009, Form 10-K also contained the following false and misleading statements regarding the Company's internal controls:

ITEM 9A. CONTROLS AND PROCEDURES

As of June 30, 2009, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the 1934 Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief

Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

57. The Company's September 14, 2009, 10-K also contained, attached to the filing as Exhibit 31.1, the following false and misleading certification, pursuant to the Sarbanes-Oxley Act of 2002 ("SOX"), executed by Defendant Barry wherein the CEO falsely stated:

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a)/15d-14(a)

I, John F. Barry III, Chief Executive Officer and Chairman of the Board of Prospect Capital Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-K of Prospect Capital Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our

supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over the financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

58. The Company's September 14, 2009 Form 10-K also contained, attached as Exhibit 32.1, the following false and misleading certification, pursuant to SOX, executed by Defendant Barry, wherein the CEO falsely stated:

**CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, 18 U.S.C.
1350**

In connection with the Quarterly Report on Form 10-K for the period ended June 30, 2009 (the "Report") of Prospect Capital Corporation (the "Registrant"), as filed with the Securities and Commission on the date hereof, I, John F. Barry III, the Chief Executive Officer of the Registrant, hereby certify, to the best of my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

59. The Company's September 14, 2009, 10-K also contained, attached to the filing as Exhibit 31.2, the following false and misleading certification, pursuant to SOX, executed by Defendant Oswald, wherein the CFO falsely stated:

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a)/15d-14(a)**

I, Brian H. Oswald, Chief Financial Officer and Treasurer of Prospect Capital Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-K of Prospect Capital Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of

financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over the financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

60. The Company's September 14, 2009, 10-K also contained, attached to the filing as Exhibit 32.2, the following false and misleading certification, pursuant to SOX, executed by Defendant Oswald, wherein the CFO falsely stated:

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002,
18 U.S.C. 1350**

In connection with the annual report on Form 10-K for the period ended June 30, 2009 (the "Report") of Prospect Capital Corporation (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, Brian H. Oswald, the Chief Financial Officer of the Registrant, hereby certify, to the best of my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

61. On November 9, 2009, the Company issued a press release announcing its first quarter financial results. The press release was entitled “Prospect Capital Announces Results for Quarter Ended September 30, 2009”. The press release falsely stated, in part, as follows:

Prospect Capital Corporation (NASDAQ: PSEC) (“Company,” “Prospect” or “we”) today announced financial results for its first fiscal quarter ended September 30, 2009.

For the quarter ended September 30, 2009, our net investment income was \$12.3 million, or 25 cents per weighted average number of shares for the quarter. We estimate that our net investment income for the current second fiscal quarter ended December 31, 2009 will be 22 to 30 cents per share. These temporary per share changes from prior quarters are primarily due to the issuance of additional shares to fund the acquisition of Patriot Capital Funding, Inc. (NASDAQ: PCAP) (“Patriot”). The full quarterly benefits of the Patriot acquisition are expected to be reflected in the March 31, 2010 quarterly financial results. We have also raised additional equity capital that can be deployed into other accretive investments beyond the Patriot acquisition.

We anticipate that the merger with Patriot will close on or about December 2, 2009. We expect the Patriot acquisition to be accretive to net investment income per quarter in an amount approximating 9 cents or more per share, which could be greater with early repayments before scheduled maturity dates as well as with loan coupon increases, as have occurred with multiple prior Patriot investments.

In addition, we are currently evaluating a pipeline of potential additional portfolio and individual investment opportunities, aggregating more than \$4 billion of assets, for which we have cash and credit facility availability on hand. We are negotiating to make a controlling investment in a sizeable portfolio, which we believe could be significantly accretive to our income, with a more than 20% internal rate of return on our investment anticipated, and look forward to providing more details in the weeks to come.

We expect to announce our second fiscal quarter dividend in December.

OPERATING RESULTS

HIGHLIGHTS

Equity Values:

Net assets as of September 30, 2009: \$607.25 million
Net asset value per share as of September 30, 2009: \$11.11

First Fiscal Quarter Operating Results:
Net investment income: \$12.32 million
Net investment income per share: \$0.25
Dividends declared to shareholders per share: \$0.4075

62. On November 9, 2009, the Company filed its Form 10-Q with the SEC. The 10-Q contained the same financial information as the press release dated and released the same day. It also contained substantially similar Control and Procedures disclosures referenced in ¶56, *supra* and also attached to the filing as Exhibits 31.1 and 32.1, SOX certifications executed by Defendants Barry and as Exhibits 31.2 and 32.2, SOX certifications executed by Defendant Oswald, each substantially similar to the certifications referenced in ¶¶57-60, *supra*.

63. On February 9, 2010, the Company issued a press release announcing its second quarter financial results. The press release was “Prospect Capital Announces 37% Increase in Net Investment Income”. The press release falsely stated, in part, as follows:

Prospect Capital Corporation (NASDAQ: PSEC) (“Company,” “Prospect” or “we”) today announced financial results for its second fiscal quarter ended December 31, 2009.

For the three and six months ended December 31, 2009, our net investment income was \$16.9 million and \$29.2 million, respectively, or 29 cents and 54 cents, respectively, per weighted average share outstanding for the period presented. Our net investment income increased 37%, and our net investment income per share increased 19%, from the quarter ended September 30, 2009 to the quarter ended December 31, 2009.

We closed our acquisition of Patriot Capital Funding, Inc. (NASDAQ: PCAP) (“Patriot”) on December 2, 2009. While the full quarterly benefits of the Patriot acquisition are not expected to be reflected until the March 31, 2010 quarterly financial results, we did recognize a gain on the Patriot acquisition of \$5.7 million. We also recognized \$7.5 million of interest income during the period from the acquisition through the end of the quarter, including \$4.6 million of interest income from the acceleration of purchase discounts upon early repayments of three loans, repayments of three revolving lines of credit and the sale of one investment position. These early repayments have been full par

repayments, comparing favorably to the discount on our purchase of the Patriot portfolio.

We have additional liquidity available that can be deployed into other accretive investments beyond the Patriot acquisition and are currently moving forward a pipeline of potential additional portfolio and individual investment opportunities that aggregate more than \$3 billion of assets.

We estimate that our net investment income for the current third fiscal quarter ended March 31, 2010 will be 24 to 32 cents per share. We expect to announce our third fiscal quarter distribution in March.

The December 31, 2009 quarter, because of a desire to eliminate excise taxes for the 2009 calendar year, included two dividend record dates, thereby causing a second dividend payable and a second associated deduction from our net asset value deduction during the quarter.

OPERATING RESULTS

HIGHLIGHTS

Equity Values:

Net assets as of December 31, 2009: \$637.48 million

Net asset value per share as of December 31, 2009: \$10.06

Second Fiscal Quarter Operating Results:

Net investment income: \$16.93 million

Net investment income per share: \$0.29

Dividends declared to shareholders per share: \$0.40875

Year-to-date Operating Results:

Net investment income: \$29.24 million

Net investment income per share: \$0.54

Dividends declared to shareholders per share: \$0.81625

64. On February 9, 2010, the Company filed its Form 10-Q with the SEC. The 10-Q contained the same financial information as the press release dated and released the same day. It also contained substantially similar Control and Procedures disclosures referenced in ¶56, *supra* and also attached to the filing as Exhibits 31.1 and 32.1, SOX certifications executed by Defendants Barry and as Exhibits 31.2 and 32.2, SOX certifications executed by Defendant Oswald, each substantially similar to the certifications referenced in ¶¶57-60, *supra*.

65. On May 10, 2010, the Company issued a press release announcing its third quarter financial results. The press release was entitled “Prospect Capital Announces 12% Increase in Net Investment Income”. The press release falsely stated, in part, as follows:

Prospect Capital Corporation (NASDAQ: PSEC) (“Company,” “Prospect” or “we”) today announced financial results for its third fiscal quarter ended March 31, 2010.

For the three and nine months ended March 31, 2010, our net investment income was \$19.0 million and \$48.2 million, respectively, or 30 cents and 85 cents, respectively, per weighted average share outstanding for the periods then ended. Our net investment income increased 12%, and our net investment income per share increased 3%, from the quarter ended December 31, 2009 to the quarter ended March 31, 2010.

We closed our acquisition of Patriot Capital Funding, Inc. (NASDAQ: PCAP) (“Patriot”) on December 2, 2009. During the quarter ended March 31, 2010, we recognized \$15.6 million of interest income in connection with the assets acquired from Patriot, including \$6.7 million of interest income from the acceleration of purchase discounts upon repricing of three loans.

We have additional liquidity available that can be deployed into other accretive investments beyond the Patriot acquisition and are currently moving forward a pipeline of potential additional portfolio and individual investment opportunities.

We estimate that our net investment income for the current fourth fiscal quarter ended June 30, 2010 will be 24 to 32 cents per share. We expect to announce our third fiscal quarter distribution in June.

OPERATING RESULTS

HIGHLIGHTS

Equity Values:

Net assets as of March 31, 2010: \$649.48 million

Net asset value per share as of March 31, 2010: \$10.09

Third Fiscal Quarter Operating Results:

Net investment income: \$18.97 million

Net investment income per share: \$0.30

Dividends declared to shareholders per share: \$0.41

Year-to-date Operating Results:

Net investment income: \$48.22 million

Net investment income per share: \$0.85

Dividends declared to shareholders per share: \$1.22625

66. On May 10, 2010, the Company filed its Form 10-Q with the SEC. The 10-Q contained the same financial information as the press release dated and released the same day. It also contained substantially similar Control and Procedures disclosures referenced in ¶56, *supra* and also attached to the filing as Exhibits 31.1 and 32.1, SOX certifications executed by Defendants Barry and as Exhibits 31.2 and 32.2, SOX certifications executed by Defendant Oswald, each substantially similar to the certifications referenced in ¶¶57-60, *supra*.

67. On August 30, 2010, the Company issued a press release announcing its fourth fiscal quarter and fiscal year ended June 30, 2010, financial results. The press release was entitled “Prospect Capital Announces 12.3% Year-Over-Year Increase in Net Investment Income for Fiscal Year Ended June 30, 2010, Plus an \$0.18 per Share Quarterly Increase in Net Asset Value”. The press release falsely stated, in part, as follows:

Prospect Capital Corporation (NASDAQ: PSEC) (“Company” or “Prospect”) today announced financial results for our fourth fiscal quarter and fiscal year ended June 30, 2010.

For the year ended June 30, 2010, our net investment income was \$66.5 million, an increase of 12.3% from the prior year on a dollars basis. On a weighted average share basis, net interest income declined from \$1.87 for the year ended June 30, 2009 to \$1.12 for the year ended June 30, 2010. This decline was primarily the result of raising additional equity capital early in the year ended June 30, 2010 in order to complete the acquisition of Patriot Capital Funding, Inc. (“Patriot”) in December 2009 as well as to make new investments in the fourth fiscal quarter.

Our net asset value per share on June 30, 2010 stood at \$10.29 per share, an increase of \$0.18 per share from March 31, 2010.

For the quarter ended June 30, 2010, our net investment income was \$16.6 million, or \$0.25 per weighted average number of shares for the quarter. Several new investments that we had anticipated would close in the June 2010 quarter were deferred and closed in the current September 2010 quarter. We have closed more than \$130 million of new investments in the current September 2010

quarter. We estimate that our net investment income for the current first fiscal quarter ended September 30, 2010 will be \$0.26 to \$0.30 per share.

In addition, we have revised upward our second quarter results to reflect the settlement of certain accrued liabilities, assumed in connection with our acquisition of Patriot, which had been estimated on a tentative basis at the time of the acquisition of Patriot in the December 2009 quarter. The settlement of these accruals at less than the estimated cost resulted in an increase in our net investment income per share for the fiscal 2010 second quarter of \$0.03, increasing from the previously reported \$0.29 to \$0.32.

We have previously announced upcoming cash distributions, our 24th, 25th, 26th, and 27th consecutive cash distributions to shareholders, as follows:

10.0250 cents per share for July 2010 (record date of July 30, 2010 and payment date of August 31, 2010); and

10.0500 cents per share for August 2010 (record date of August 31, 2010 and payment date of September 30, 2010); and

10.0625 cents per share for September 2010 (record date of September 30, 2010 and payment date of October 29, 2010); and

10.0750 cents per share for October 2010 (record date of October 29, 2010 and payment date of November 30, 2010).

HIGHLIGHTS

Equity Values:

Net assets as of June 30, 2010: \$710.69 million

Net asset value per share as of June 30, 2010: \$10.29

Fiscal Year Operating Results:

Net investment income: \$66.45 million

Net investment income per share: \$1.12

Dividends declared to shareholders per share: \$1.32625

Fourth Fiscal Quarter Operating Results:

Net investment income: \$16.64 million

Net investment income per share: \$0.25

Dividends declared to shareholders per share: \$0.10

Fourth Fiscal Quarter Portfolio and Portfolio Activity:

Portfolio investments in quarter: \$157.66 million

Total Portfolio investments at cost at June 30, 2010: \$728.76 million

Number of portfolio companies at June 30, 2010: 58

PORTFOLIO AND INVESTMENT ACTIVITY

* * *

Our investment pipeline currently aggregates more than \$1 billion of potential opportunities. Primary investment activity in the marketplace has increased in calendar year 2010, and we are currently evaluating a robust pipeline of potential investments, some of which have the potential to close this quarter. These investments are primarily secured investments with double digit coupons, sometimes coupled with equity upside through co-investments or warrants, and diversified across multiple sectors.

As we have throughout 2009 and 2010 year to date, we also continue to evaluate potential acquisitions of lending and other financial services platforms, portfolios, and assets, utilizing our significant liquidity and balance sheet strength to go on offense to drive shareholder value.

We are pleased with the overall stability of the credit quality of our portfolio, with many of our companies generating year-over-year and sequential growth in top-line revenues and bottom-line profits.

LIQUIDITY AND FINANCIAL RESULTS

On June 11, 2010, we held a first closing of an extension and expansion of our revolving credit facility ("Facility") with a syndicate of lenders. The lenders currently have commitments of \$210 million under the Facility. The Facility includes an accordion feature which allows an increase to up to \$300 million of commitments without the need for re-approval from the existing lenders. We are currently scheduling a second closing of the Facility for an additional \$30 million in commitments with current and additional lenders. We will seek to add additional lenders to the Facility in order to reach the maximum size. While we are optimistic about these planned Facility size increases, we cannot guarantee them.

As we make additional investments that are eligible to be pledged under the Facility, we will generate additional availability to the extent such investments are eligible to be placed into the borrowing base. The revolving period of the Facility extends through June 2012, with an additional one year amortization period (with distributions allowed) after the completion of the revolving period. Interest on borrowings under the Facility is one-month Libor plus 325 basis points, subject to a minimum Libor floor of 100 basis points, representing a significant decrease in financing cost for us compared to our prior facility. The unused portion of the Facility has a fee equal to either 75 basis points (if at least half of the Facility is used) or 100 basis points (if less than half of the Facility is used). The Facility has been and we believe will be used, together with our equity capital, to make

additional long-term investments. The Facility has an investment grade Moody's rating of A2.

As of June 30, 2010, we had \$100.3 million of borrowings under our Facility. Including cash and additional assets we are in the process of pledging to the Facility, and not including either our anticipated second closing of the Facility or further leveragability of additional collateral that we could add to our Facility from existing unleveraged investments and additional new transactions, our available liquidity as of today is currently in excess of \$150 million for new investments.

Our at-the-market stock distribution program has proven to be a cost effective source of new equity capital to fund investment activity. On March 17, 2010, we established an at-the-market program through which we could sell up to 8,000,000 shares of our common stock. Through this program we issued 5,251,400 shares of our common stock at an average price of \$11.50 per share, raising \$60.4 million of gross proceeds, from March 23, 2010 through June 30, 2010.

During the period from July 1, 2010 to July 21, 2010, we completed the sales of the remaining 2,748,600 shares of our common stock at an average price of \$9.75 per share, and raised \$26.8 million of gross proceeds, under our at-the-market program.

During the period from July 22, 2010 to August 24, 2010, we issued 3,814,528 shares of our common stock at an average price of \$9.71 per share, and raised \$37.1 million of gross proceeds, under our at-the-market program.

With a debt to equity ratio currently less than 15%, our modestly leveraged balance sheet is a source of significant strength. Our equitized balance sheet also gives us the potential for future earnings upside as we prudently look to grow our existing revolving credit facility, add additional secured facilities, and evaluate term debt solutions made more attractive by our investment grade facility ratings at both the corporate and Facility levels.

68. On August 30, 2010, the Company also filed its Form 10-K with the SEC, which contained the financial results announced in the press release issued the same day. Specifically, the Form 10-Q falsely reported the following:

**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
(in thousands, except share and per share data)**

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Assets (Note 11)		
Investments at fair value (net cost of \$728,759 and \$531,424, respectively, Note 4)		

Control investments (net cost of \$185,720 and \$187,105, respectively)	\$ 195,958	\$ 206,332
Affiliate investments (net cost of \$65,082 and \$33,544, respectively)	73,740	32,254
Non-control/Non-affiliate investments (net cost of \$477,957 and \$310,775, respectively)	<u>478,785</u>	<u>308,582</u>
Total investments at fair value	<u>748,483</u>	<u>547,168</u>

Investments in money market funds	68,871	98,735
Cash	1,081	9,942
Receivables for:		
Interest, net	5,356	3,562
Dividends	1	28
Other	419	571
Prepaid expenses	371	68
Deferred financing costs	7,579	6,951
Other assets	<u>534</u>	<u>—</u>
Total Assets	<u>832,695</u>	<u>667,025</u>

Liabilities

Credit facility payable (Note 11)	100,300	124,800
Dividends payable	6,909	—
Due to Prospect Administration (Note 8)	294	842
Due to Prospect Capital Management (Note 8)	8,821	5,871
Accrued expenses	4,981	2,381
Other liabilities	<u>705</u>	<u>535</u>
Total Liabilities	<u>122,010</u>	<u>134,429</u>
Net Assets	<u>\$ 710,685</u>	<u>\$ 532,596</u>

Components of Net Assets

Common stock, par value \$0.001 per share (100,000,000 and 100,000,000 common shares authorized, respectively; 69,086,862 and 42,943,084 issued and outstanding, respectively) (Note 6)	\$ 69	\$ 43
Paid-in capital in excess of par (Note 6)	805,918	545,707
(Over) undistributed net investment income	(10,431)	24,152
Accumulated realized losses on investments	(104,595)	(53,050)
Unrealized appreciation on investments	<u>19,724</u>	<u>15,744</u>
Net Assets	<u>\$ 710,685</u>	<u>\$ 532,596</u>

Net Asset Value Per Share

<u>\$ 10.29</u>	<u>\$ 12.40</u>
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	Year Ended		
	June 30, 2010	June 30, 2009	June 30, 2008
Investment Income			
Interest income: (Note 4)			
Control investments (Net of foreign withholding tax of \$19, \$166, and \$230, respectively)	17,218	19,281	21,709
Affiliate investments (Net of foreign withholding tax of \$-, \$-, and \$70, respectively)	7,957	3,039	1,858
	61,34	40,60	35,46
Non-control/Non-affiliate investments	<u>3</u>	<u>6</u>	<u>6</u>
Total interest income	86,51	62,92	59,03

	<u>8</u>	<u>6</u>	<u>3</u>
Dividend income			
	14,86	22,46	11,32
Control investments	0	8	7
Non-control/Non-affiliate investments	474	—	—
Money market funds	<u>32</u>	<u>325</u>	<u>706</u>
	15,36	22,79	12,03
Total dividend income	<u>6</u>	<u>3</u>	<u>3</u>
Other income: (Note 5)			
Control investments	261	1,249	1,123
Affiliate investments	169	—	—
		13,51	
Non-control/Non-affiliate investments	3,613	3	7,213
Gain on Patriot acquisition (Note 2)	<u>7,708</u>	<u>—</u>	<u>—</u>
	11,75	14,76	
Total other income	<u>1</u>	<u>2</u>	<u>8,336</u>
	113,6	100,4	79,40
Total Investment Income	<u>35</u>	<u>81</u>	<u>2</u>
Operating Expenses			
Investment advisory fees:			
	13,92	11,91	
Base management fee (Note 8)	9	5	8,921
	16,61	14,79	11,27
Income incentive fee (Note 8)	<u>3</u>	<u>0</u>	<u>8</u>
	30,54	26,70	20,19
Total investment advisory fees	<u>2</u>	<u>5</u>	<u>9</u>
Interest and credit facility expenses	8,382	6,161	6,318
Sub-administration fees	—	846	859
Legal fees	702	947	2,503
Valuation services	734	705	577
Audit, compliance and tax related fees	981	1,015	470
Allocation of overhead from Prospect			
Administration (Note 8)	3,361	2,856	2,139
Insurance expense	254	246	256
Directors' fees	255	269	253
Potential merger expenses (Note 12)	852	—	—
Other general and administrative expenses	1,121	1,035	715
Excise taxes	<u>—</u>	<u>533</u>	<u>—</u>
	47,18	41,31	34,28
Total Operating Expenses	<u>4</u>	<u>8</u>	<u>9</u>
	66,45	59,16	45,11
Net Investment Income	<u>1</u>	<u>3</u>	<u>3</u>
	(51,5	(39,0	(16,2
Net realized loss on investments (Note 4)	45	78	22
Net change in unrealized appreciation		15,01	(1,30
(depreciation) on investments (Note 4)	<u>3,980</u>	<u>9</u>	<u>0</u>
Net Increase in Net Assets Resulting from	18,88	35,10	27,59
Operations	<u>6</u>	<u>4</u>	<u>1</u>
Net increase in net assets resulting from operations	0.32	1.11	1.17

per share: (Note 7 and Note 9)			
Weighted average shares of common stock outstanding:		<u>59,42</u>	<u>31,55</u>
		<u>9,222</u>	<u>9,905</u>
			<u>23,62</u>
			<u>6,642</u>
	Year Ended		
	June 30,	June 30,	June 30,
	2010	2009	2008
Increase in Net Assets from Operations:			
Net investment income	\$ 66,451	\$ 59,163	\$ 45,113
Net loss on investments	(51,545)	(39,078)	(16,222)
Net change in unrealized appreciation (depreciation) on investments	3,980	15,019	(1,300)
Net Increase in Net Assets Resulting from Operations	<u>18,886</u>	<u>35,104</u>	<u>27,591</u>
Dividends to Shareholders	<u>(101,034)</u>	<u>(36,519)</u>	<u>(39,513)</u>
Capital Share Transactions :			
Net proceeds from capital shares sold	158,002	100,304	140,249
Less: Offering costs of public share offerings	(1,781)	(1,023)	(1,505)
Fair value of equity issued in conjunction with Patriot acquisition	92,800	—	—
Reinvestment of dividends	<u>11,216</u>	<u>5,107</u>	<u>2,753</u>
Net Increase in Net Assets Resulting from Capital Share Transactions	<u>260,237</u>	<u>104,388</u>	<u>141,497</u>
Total Increase	178,089	102,973	129,575

in Net Assets:			
Net assets at beginning of year	<u>532,596</u>	<u>429,623</u>	<u>300,048</u>
Net Assets at End of Year	<u><u>\$ 710,685</u></u>	<u><u>\$ 532,596</u></u>	<u><u>\$ 429,623</u></u>
Capital Share Activity:			
Shares sold	16,683,197	12,942,500	9,400,000
Shares issued for Patriot acquisition	8,444,068	—	—
Shares issued through reinvestment of dividends	<u>1,016,513</u>	<u>480,205</u>	<u>171,314</u>
Net increase in capital share activity	26,143,778	13,422,705	9,571,314
Shares outstanding at beginning of year	<u>42,943,084</u>	<u>29,520,379</u>	<u>19,949,065</u>
Shares Outstanding at End of Year	<u><u>69,086,862</u></u>	<u><u>42,943,084</u></u>	<u><u>29,520,379</u></u>

B.

	Year Ended		
	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Cash Flows from Operating Activities:			
Net increase in net assets resulting from operations	\$ 18,886	\$ 35,104	\$ 27,591
Net realized loss on investments	51,545	39,078	16,239
Net change in unrealized (appreciation) depreciation on investments	(3,980)	(15,019)	1,300
Accretion of original issue discount on investments	(20,313)	(2,399)	(2,095)
Amortization of deferred financing costs	5,297	759	727
Gain on Patriot acquisition (Note 2)	(7,708)	—	—
Change in operating assets and liabilities:			
Payments for purchases of investments and payment-in-kind	(157,662)	(98,305)	(311,947)

interest			
Proceeds from sale of investments and collection of investment principal	136,221	27,007	127,212
Purchases of cash equivalents	(199,997)	(39,999)	(274,949)
Sales of cash equivalents	199,997	39,999	274,932
Net decrease (increase) of investments in money market funds	29,864	(65,735)	8,760
Decrease (increase) in interest receivable, net	530	532	(1,955)
Decrease (increase) in dividends receivable	27	4,220	(3,985)
Decrease (increase) in loan principal receivable	—	71	(71)
Decrease in receivable for structuring fees	—	—	1,625
Decrease (increase) in other receivables	152	(4)	(296)
(Increase) decrease in prepaid expenses	(268)	205	198
Decrease in due from Prospect Administration	1,500	—	—
Increase in other assets	(534)	—	—
Decrease in payables for securities purchased	—	—	(70,000)
(Decrease) increase in due to Prospect Administration	(548)	147	365
Increase (decrease) in due to Prospect Capital Management	2,950	(75)	1,438
(Decrease) increase in accrued expenses	(1,291)	1,277	(208)
Increase (decrease) in other liabilities	<u>170</u>	<u>(863)</u>	<u>1,094</u>
Net Cash Provided By Operating Activities:	<u>54,838</u>	<u>(74,000)</u>	<u>(204,025)</u>
Cash Flows from Investing Activities:			
Acquisition of Patriot, net of cash acquired (Note 2)	<u>(106,586)</u>	<u>—</u>	<u>—</u>
Net Cash Used In Investing Activities:	<u>(106,586)</u>	<u>—</u>	<u>—</u>
Cash Flows from Financing Activities:			
Borrowings under credit facility	244,100	100,157	238,492

Payments under credit facility	(268,600)	(66,524)	(147,325)
Financing costs paid and deferred	(5,925)	(6,270)	(416)
Net proceeds from issuance of common stock	158,001	100,304	140,249
Offering costs from issuance of common stock	(1,781)	(1,023)	(1,505)
Dividends paid	<u>(82,908)</u>	<u>(43,257)</u>	<u>(24,915)</u>
Net Cash Provided By Financing Activities:	<u>42,887</u>	<u>83,387</u>	<u>204,580</u>
Total (Decrease) Increase in Cash	(8,861)	9,387	555
Cash balance at beginning of year	<u>9,942</u>	<u>555</u>	<u>—</u>
Cash Balance at End of Year	<u>\$ 1,081</u>	<u>\$ 9,942</u>	<u>\$ 555</u>
Cash Paid For Interest	<u>\$ 1,444</u>	<u>\$ 5,014</u>	<u>\$ 4,942</u>
Non-Cash Financing Activity:			
Amount of shares issued in connection with dividend reinvestment plan	<u>\$ 11,216</u>	<u>\$ 5,107</u>	<u>\$ 2,753</u>
Fair value of shares issued in conjunction with the Patriot Acquisition	<u>\$ 92,800</u>	<u>\$ —</u>	<u>\$ —</u>

69. The August 30, 2010, Form 10-K contained substantially similar Control and Procedures disclosures referenced in ¶56, *supra* and also attached to the filing as Exhibits 31.1 and 32.1, SOX certifications executed by Defendants Barry and as Exhibits 31.2 and 32.2, SOX certifications executed by Defendant Oswald, each substantially similar to the certifications referenced in ¶¶57-60, *supra*.³

70. On November 9, 2010, the Company issued a press release announcing its first quarter financial results. The press release was entitled “Prospect Capital Announces 26%

³ These Exhibits were the subject of a typographical error, corrected in the Company’s September 24, 2010 Form 10-K/A, which also contained SOX certifications for Defendants Barry and Oswald substantially similar to those of ¶¶57-60

Sequential Quarterly Increase in Net Investment Income and Reports Operating Results of 34 Cents per Share". The press release falsely stated, in part, as follows:

Prospect Capital Corporation (NASDAQ: PSEC) ("Company" or "Prospect") today announced financial results for our first fiscal quarter ended September 30, 2010.

For the quarter ended September 30, 2010, our net investment income was \$21.0 million, or \$0.28 per weighted average number of shares for the quarter, up from \$16.6 million, or \$0.25 per weighted average number of shares for the quarter ended June 30, 2010 and up from \$12.3 million, or \$0.25 per weighted average number of shares for the quarter ended September 30, 2009. New and follow-on investments in excess of \$137 million closed in the September 2010 quarter contributed to the improved results.

For the quarter ended September 30, 2010, our net assets resulting from operations increased by \$25.6 million, or \$0.34 per weighted average number of shares for the quarter, up from \$14.6 million, or \$0.22 per weighted average number of shares for the quarter ended June 30, 2010. Our net asset value per share on September 30, 2010 stood at \$10.24 per share.

In addition, we have revised upward our results for the second quarter of our fiscal year ended June 30, 2010 to reflect the final settlement of all accrued liabilities assumed in connection with our acquisition of Patriot, which had been estimated on a tentative basis at the time of the acquisition of Patriot in the December 2009 quarter. The settlement of these accruals at less than the estimated cost resulted in an increase in our net investment income per share for the December 2009 quarter of \$0.01, increasing from the previously reported \$0.32 to \$0.33.

We estimate that our net investment income for the current second fiscal quarter ended December 31, 2010 will be \$0.26 to \$0.30 per share.

We have previously announced upcoming cash distributions, our 27th, 28th, 29th, and 30th consecutive cash distributions to shareholders, as follows:

10.0750 cents per share for October 2010 (record date of October 29, 2010 and payment date of November 30, 2010);

10.0875 cents per share for November 2010 (record date of November 30, 2010 and payment date of December 31, 2010);

10.1000 cents per share for December 2010 (record date of December 31, 2010 and payment date of January 31, 2011); and

10.1125 cents per share for January 2011 (record date of January 31, 2011 and payment date of February 28, 2011).

HIGHLIGHTS

Equity Values:

Net assets as of September 30, 2010: \$802.82 million

Net asset value per share as of September 30, 2010: \$10.24

First Fiscal Quarter Operating Results:

Net investment income: \$21.00 million

Net investment income per share: \$0.28

Net increase in net assets resulting from operations per share: \$0.34

Dividends declared to shareholders per share: \$0.301375

First Fiscal Quarter Portfolio and Portfolio Activity:

Portfolio investments in quarter: \$137.80 million

Total portfolio investments at cost at September 30, 2010: \$806.40 million

Number of portfolio companies at September 30, 2010: 57

71. On November 9, 2010, the Company filed its Form 10-Q with the SEC. The 10-Q contained the same financial information as the press release dated and released the same day. It also contained substantially similar Control and Procedures disclosures referenced in ¶56, *supra* and also attached to the filing as Exhibits 31.1 and 32.1, SOX certifications executed by Defendants Barry and as Exhibits 31.2 and 32.2, SOX certifications executed by Defendant Oswald, each substantially similar to the certifications referenced in ¶¶57-60, *supra*.

72. On February 9, 2011, the Company issued a press release announcing its first quarter financial results. The press release was entitled “Prospect Capital Reports Operating Results of 38 Cents per Share for Quarter Ended December 31, 2010”. The press release falsely stated, in part, as follows:

Prospect Capital Corporation (NASDAQ: PSEC) (“Company” or “Prospect”) today announced financial results for our second quarter ended December 31, 2010.

For the three and six months ended December 31, 2010, the increase in net assets resulting from operations was \$31.9 million and \$57.5 million, respectively, or \$0.38 per share and \$0.73 per share, respectively. For the three months ended September 30, 2010, the increase in net assets resulting from operations was \$25.6 million or \$0.34 per share.

Our operating results increased 24.9%, and our operating results per share increased 10.1% from the quarter ended September 30, 2010 to the quarter ended December 31, 2010. This increase is primarily due to our sale of Miller Petroleum, Inc. common stock, which generated a \$5.4 million realized gain. New and follow-on investments of \$137.6 million closed in the December 2010 quarter.

Our net investment income (“NII”) was \$19.1 million and \$19.3 million for the three months ended December 31, 2010 and December 31, 2009, respectively, or \$0.23 per share and \$0.33 per share, respectively. Our NII was \$40.1 million and \$31.6 million for the six months ended December 31, 2010 and December 31, 2009, respectively, or \$0.51 per share and \$0.59 per share, respectively.

The primary source of the higher NII per share in 2009 is our recognition of a gain on the Patriot acquisition of \$8.6 million in December 2009. Also affecting NII per share is the accelerated accretion of original purchase discounts of \$4.6 million recognized in the quarter ended December 31, 2009. During the quarter ended September 30, 2010, we recognized \$2.7 million of accelerated accretion of original purchase discounts. No accelerated accretion of original purchase discounts was recognized in the quarter ended December 31, 2010. If these two sources of adjustment to NII per share were removed and adjustments made for the related effects on advisory fees, NII per share would have been \$0.23 per share and \$0.15 per share for the three months ended December 31, 2010 and 2009, respectively, and \$0.48 per share and \$0.39 per share for the six months ended December 31, 2010 and 2009, respectively.

We anticipate NII per share will increase as we utilize prudent term leverage to finance our growth through new originations, given our debt to equity ratio stood at only approximately 17% as of December 31, 2010. We estimate that our net investment income for the current third fiscal quarter ended March 31, 2011 will be \$0.24 to \$0.30 per share.

Our net asset value per share on December 31, 2010 stood at \$10.25 per share, an increase of \$0.01 per share from September 30, 2010.

Earlier today, we declared our 31st, 32nd, and 33rd consecutive cash distributions to shareholders, as follows:

10.1150 cents per share for February 2011 (record date of February 28, 2011 and payment date of March 31, 2011); and

10.1175 cents per share for March 2011 (record date of March 31, 2011 and payment date of April 29, 2011); and

10.1200 cents per share for April 2011 (record date of April 29, 2011 and payment date of May 31, 2011).

HIGHLIGHTS

Equity Values:

Net assets as of December 31, 2010: \$903.2 million

Net asset value per share as of December 31, 2010: \$10.25

Second Fiscal Quarter Operating Results:

Net investment income: \$19.1 million

Net investment income per share: \$0.23

Dividends declared to shareholders per share: \$0.302625

Year-to-date Operating Results:

Net investment income: \$40.1 million

Net investment income per share: \$0.51

Dividends declared to shareholders per share: \$0.604000

Second Fiscal Quarter Portfolio and Portfolio Activity:

Portfolio investments in quarter: \$140.9 million

Total portfolio investments at cost at December 31, 2010: \$886.1 million

Total portfolio investments at market at December 31, 2010:
\$918.2 million

Number of portfolio companies at December 31, 2010: 58

73. On February 9, 2011, the Company filed its Form 10-Q with the SEC. The 10-Q contained the same financial information as the press release dated and released the same day. It also contained substantially similar Control and Procedures disclosures referenced in ¶56, *supra* and also attached to the filing as Exhibits 31.1 and 32.1, SOX certifications executed by Defendants Barry and as Exhibits 31.2 and 32.2, SOX certifications executed by Defendant Oswald, each substantially similar to the certifications referenced in ¶¶57-60, *supra*.

74. On May 10, 2011, the Company issued a press release announcing its first quarter financial results. The press release was entitled “Prospect Capital Reports Operating Results of 38 Cents per Share for Quarter Ended March 31, 2011”. The press release falsely stated, in part, as follows:

Prospect Capital Corporation (NASDAQ: PSEC) (“Company” or “Prospect”) today announced financial results for our third quarter ended March 31, 2011.

For the three and nine months ended March 31, 2011, the increase in net assets resulting from operations was \$33.8 million and \$91.3 million, respectively, or \$0.38 per share and \$1.11 per share, respectively. For the three months ended December 31, 2010, the increase in net assets resulting from operations was \$31.9 million or \$0.38 per share.

Our operating results increased 5.7%, and our operating results per share were unchanged, from the quarter ended December 31, 2010 to the quarter ended March 31, 2011. This increase is primarily due to investment income from new and follow-on investments of \$359.2 million which were closed in the March 2011 quarter, a quarter with our highest level of originations since our inception.

Our net investment income ("NII") was \$24.0 million and \$19.0 million for the three months ended March 31, 2011 and March 31, 2010, respectively, or \$0.27 per share and \$0.30 per share, respectively. Our NII was \$64.0 million and \$50.6 million for the nine months ended March 31, 2011 and March 31, 2010, respectively, or \$0.78 per share and \$0.89 per share, respectively.

The primary source of the higher NII per share in fiscal year 2010 compared to fiscal year 2011 is the non-recurrence of the gain recognized in fiscal year 2010 in connection with the acquisition of Patriot Capital Funding, Inc. Also affecting NII per share is a decrease in the accelerated accretion of original purchase discounts from \$6.9 million recognized in the March 2010 quarter to \$3.4 million recognized during the March 2011 quarter. Accelerated accretion of original purchase discounts decreased from \$11.5 million recognized during the nine months ended March 31, 2010 to \$6.1 million recognized during the nine months ended March 2011. If these two sources of adjustment to NII per share were removed and adjustments made for the related effects on advisory fees, NII per share would have been \$0.24 per share in the March 2011 quarter and \$0.21 per share in the March 2010 quarter, and \$0.72 per share and \$0.61 per share for the nine months ended March 2011 and March 2010, respectively.

We are targeting growth in NII per share as we utilize prudent leverage to finance our growth through new originations, given our debt to equity ratio stood at less than 42% as of March 31, 2011 and approximately 34% today. We estimate that our net investment income for the current fourth fiscal quarter ended June 30, 2011 will be \$0.35 to \$0.40 per share. Included in this estimate is \$0.11 per share generated from accelerated accretion on an asset acquired from Patriot and anticipated to be repaid during the quarter.

Our net asset value per share on March 31, 2011 stood at \$10.33 per share, an increase of \$0.08 per share from December 31, 2010.

Yesterday, we declared our 34th, 35th, 36th, and 37th consecutive cash distributions to shareholders, as follows:

- \$0.101225 per share for May 2011 to holders of record on May 31, 2011 with a payment date of June 24, 2011;

- \$0.101250 per share for June 2011 to holders of record on June 30, 2011 with a payment date of July 22, 2011;
- \$0.101275 per share for July 2011 to holders of record on July 29, 2011 with a payment date of August 26, 2011;
- \$0.101300 per share for August 2011 to holders of record on August 31, 2011 with a payment date of September 23, 2011.

HIGHLIGHTS

Equity Values:

Net assets as of March 31, 2011: \$912.9 million

Net asset value per share as of March 31, 2011: \$10.33

Third Fiscal Quarter Operating Results:

Net investment income: \$24.0 million

Net investment income per share: \$0.27

Dividends declared to shareholders per share: \$0.30345

Year-to-date Operating Results:

Net investment income: \$64.0 million

Net investment income per share: \$0.78

Dividends declared to shareholders per share: \$0.90745

Third Fiscal Quarter Portfolio and Portfolio Activity:

Portfolio investments in quarter: \$359.2 million

Total portfolio investments at cost at March 31, 2011: \$1.174 billion

Total portfolio investments at market at March 31, 2011: \$1.214 billion

Number of portfolio companies at March 31, 2011: 64

75. On May 10, 2011, the Company filed its Form 10-Q with the SEC. The 10-Q contained the same financial information as the press release dated and released the same day. It also contained substantially similar Control and Procedures disclosures referenced in ¶56, *supra* and also attached to the filing as Exhibits 31.1 and 32.1, SOX certifications executed by Defendants Barry and as Exhibits 31.2 and 32.2, SOX certifications executed by Defendant Oswald, each substantially similar to the certifications referenced in ¶¶57-60, *supra*.

76. On August 29, 2011, the Company issued a press release announcing its fourth fiscal quarter and fiscal year ended June 30, 2011, financial results. The press release was entitled "Prospect Capital Announces 40.2% Year-Over-Year Increase in Net Investment Income

for Fiscal Year Ended June 30, 2011, Plus a \$0.06 per Share Annual Increase in Net Asset Value". The press release falsely stated, in part, as follows:

Prospect Capital Corporation (NASDAQ: PSEC) ("Company" or "Prospect") today announced financial results for our fourth fiscal quarter and fiscal year ended June 30, 2011.

For the year ended June 30, 2011, our net investment income was \$94.2 million, an increase of 40.2% from the prior year on a dollars basis. On a weighted average share basis, net investment income declined from \$1.13 for the year ended June 30, 2010 to \$1.10 for the year ended June 30, 2011.

Our net asset value per share on June 30, 2011 stood at \$10.36 per share, an increase of \$0.06 per share from June 30, 2010, and an increase of \$0.03 per share from March 31, 2011.

For the quarter ended June 30, 2011, our net investment income was \$30.2 million or \$0.31 per weighted average number of shares for the quarter. Two loans acquired with the prior acquisition of Patriot Capital Funding, Inc. repaid during the quarter, generating \$10.75 million of accelerated accretion. Offsetting this additional income was the income impact relating to placing H&M on non-accrual status, which we hope to reverse in the future with a potential sale of our position. We estimate that our net investment income for the current first fiscal quarter ended September 30, 2011 will be \$0.25 to \$0.30 per share.

We have previously announced upcoming cash distributions, our 37th, 38th, and 39th consecutive cash distributions to shareholders, as follows:

10.1300 cents per share for August 2011 (record date of August 31, 2011 and payment date of September 23, 2011); and

10.1325 cents per share for September 2011 (record date of September 30, 2011 and payment date of October 25, 2011); and

10.1350 cents per share for October 2011 (record date of October 31, 2011 and payment date of November 22, 2011).

HIGHLIGHTS

Equity Values:

Net assets as of June 30, 2011: \$1.114 billion

Net asset value per share as of June 30, 2011: \$10.36

Fiscal Year Operating Results:

Net investment income: \$94.22 million

Net investment income per share: \$1.10
Dividends to shareholders per share: \$1.211125

Fourth Fiscal Quarter Operating Results:
Net investment income: \$30.19 million
Net investment income per share: \$0.31
Dividends to shareholders per share: \$0.303675

Fourth Fiscal Quarter Portfolio and Portfolio Activity:
Portfolio investments in quarter: \$312.30 million
Total Portfolio investments at cost at June 30, 2011: \$1.436 billion
Number of portfolio companies at June 30, 2011: 72

* * *

LIQUIDITY AND FINANCIAL RESULTS

Our modestly leveraged balance sheet is a source of significant strength. Our debt to equity ratio stood at 36% at June 30, 2011. Our equitized balance sheet also gives us the potential for future earnings upside as we prudently look to utilize and grow our existing revolving credit facility and add additional secured and unsecured term facilities, made more attractive by our investment-grade ratings at corporate, revolving facility, and term debt levels.

In addition, our repeat issuance in the past year in the five-year and greater unsecured term debt market has extended our liability duration, thereby better matching our assets and liabilities for balance sheet risk management.

We also have significantly diversified our counterparty risk. We currently have 11 institutional lenders in our revolving facility, up from five lenders at June 30, 2010, two lenders at June 30, 2009, and one lender at June 30, 2008.

On December 21, 2010, we issued \$150 million of five-year unsecured 6.25% senior convertible notes due December 2015 (the “2015 Notes”). The 2015 Notes are convertible into shares of common stock at an initial and June 30, 2011 conversion rate of 88.0902 and 88.0932 shares of common stock per \$1,000 principal amount of the 2015 Notes, respectively, which is equivalent to a conversion price of approximately \$11.35 per share of common stock, subject to adjustment in certain circumstances. The conversion rate for the 2015 Notes is increased when monthly cash dividends paid to common shares exceed the rate of \$0.101125 cents per share, subject to adjustment.

On February 18, 2011, we issued \$172.5 million in aggregate principal amount of 5.5-year unsecured 5.50% senior convertible notes due August 2016 (“2016 Notes”) for net proceeds of approximately \$167.3 million. Interest on the 2016 Notes is paid semi-annually in arrears on February 15 and August 15, at a rate of 5.50% per year. The 2016 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2011 of 78.3699 and 78.3717 shares, respectively, of common

stock per \$1,000 principal amount of 2016 Notes, which is equivalent to a conversion price of approximately \$12.76 per share of common stock, subject to adjustment in certain circumstances. The conversion rate for the 2016 Notes will be increased when monthly cash dividends paid to common shares exceed the rate of \$0.101150 per share.

The 2015 and 2016 Notes are general unsecured obligations of Prospect, with no financial covenants, no technical cross default provisions, and no payment cross default provisions with respect to our revolving credit facility.

The 2015 and 2016 Notes have no restrictions related to the type and security of assets in which Prospect might invest. The issuance of these notes has allowed us to grow our investment program in calendar year 2011 and commit to loans with maturities longer than our existing revolving credit facility maturity. These 2015 and 2016 Notes have an investment-grade S&P rating of BBB.

On June 11, 2010, we held a first closing of an extension and expansion of our revolving credit facility (the "Facility") with a syndicate of lenders who extended commitments of \$210 million under the Facility. The Facility includes an accordion feature, which, with the amendment completed on January 13, 2011, allows commitments to increase to up to \$400 million without the need for re-approval from the existing lenders. The amendment signed in January also allows for larger loans to be pledged to the facility and provides a mechanism for pledging loans on an expedited basis.

Since June 30, 2010, we have closed on an additional \$165 million in commitments with two existing and four additional new lenders, raising the total commitments under the Facility to \$375 million. We are currently scheduling a \$25 million upsizing in the Facility to reach our \$400 million accordion target with existing lenders, and we expect to complete such upsizing in the near future. While we are optimistic about this planned Facility size increase, we cannot guarantee such increase.

As we make additional investments, we generate additional availability to the extent such investments are eligible to be placed into the borrowing base. The revolving period of the Facility extends through June 2012, with an additional one year amortization period, with distributions allowed, after the completion of the revolving period. Interest on borrowings under the Facility is one-month Libor plus 325 basis points, subject to a minimum Libor floor of 100 basis points. The unused portion of the Facility has a fee equal to either 75 basis points (if at least half of the Facility is used) or 100 basis points (if less than half of the Facility is used). The Facility has an investment grade Moody's rating of A2.

We are currently in discussions with our Facility agent regarding an extension of the Facility to a five-year term, comprised of three years for the revolving period followed by two years for the amortization period, with distributions allowed. We anticipate, but cannot guarantee, an increase of the Facility size to at least \$500 million with new and existing lenders, a reduction in our spread on borrowings, an increase in our advance rate, and an improvement in covenants.

On April 7, 2011, we completed a public stock offering for 9.0 million shares of our common stock at an average net price of \$11.40 per share, raising \$102.1 million of net proceeds.

On June 24, 2011, we completed a public stock offering for 10 million shares of our common stock at \$10.15 per share, raising \$100.2 million of net proceeds. On July 18, 2011, the underwriter exercised its option to purchase an additional 1.5 million shares of our common stock, raising an additional \$15.1 million of net proceeds.

With the issuance of the 2015 and 2016 Notes in December and February, we repaid the revolving balance on the Facility in full. We have deployed all of the proceeds from the Notes and equity issuances, and we currently have borrowed \$125.0 million under our Facility. Assuming sufficient assets are pledged to the Facility and we are in compliance with all terms, we would have \$250 million of new investment capacity based on a \$375 million Facility size, \$275 million of new investment capacity based on a \$400 million Facility size, and \$375 million of new investment capacity based on a \$500 million Facility size.

77. On August 29, 2011, Prospect filed with the SEC a Form 10-K which contained the financial results announced in the press release issued the same day. Specifically, the Form 10-K falsely reported the following:

PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
(in thousands, except share and per share data)

	June 30, 2011	June 30, 2010
Assets (Note 5)		
Investments at fair value:		
Control investments (net cost of \$262,301 and \$185,720, respectively)	\$ 310,072	\$ 195,958
Affiliate investments (net cost of \$56,833 and \$65,082, respectively)	72,337	73,740
Non-control/Non-affiliate investments (net cost of \$1,116,601 and \$477,957, respectively)	1,080,601	478,785
Total investments at fair value (net cost of \$1,435,734 and \$728,759, respectively, Note 4)	1,463,010	748,483
Investments in money market funds	59,903	68,871
Cash	1,492	1,081
Receivables for:		
Interest, net	9,269	5,356
Dividends	—	1
Other	267	419
Prepaid expenses	101	371
Deferred financing costs	15,275	7,579
Other assets	—	534
Total Assets	1,549,317	832,695
Liabilities		
Credit facility payable (Note 5)	84,200	100,300

Senior convertible notes (Note 6)	322,500	—
Dividends payable	10,895	6,909
Due to Prospect Administration (Note 10)	212	294
Due to Prospect Capital Management (Note 10)	7,706	9,006
Accrued expenses	5,876	4,057
Other liabilities	3,571	705
Total Liabilities	434,960	121,271
Net Assets (Note 3)	\$1,114,357	\$ 711,424
Components of Net Assets		
Common stock, par value \$0.001 per share (200,000,000 and 100,000,000 common shares authorized, respectively; 107,606,690 and 69,086,862 issued and outstanding, respectively) (Note 7)	\$ 108	\$ 69
Paid-in capital in excess of par (Note 7)	1,196,741	805,918
Distributions in excess of net investment income	(21,638)	(9,692)
Accumulated realized losses on investments	(88,130)	(104,595)
Unrealized appreciation on investments	27,276	19,724
Net Assets (Note 3)	\$1,114,357	\$ 711,424
Net Asset Value Per Share	\$ 10.36	\$ 10.30

Investment Income

Interest income: (Note 4)

Control investments (Net of foreign withholding tax of \$0, \$19, and \$166, respectively)

Affiliate investments

Non-control/Non-affiliate investments

Total interest income

Dividend income:

Control investments

Non-control/Non-affiliate investments

Money market funds

Total dividend income

Other income: (Note 8)

Control investments

Affiliate investments

Non-control/Non-affiliate investments

Gain on Patriot acquisition (Note 3)

Total other income

Total Investment Income**Operating Expenses**

Investment advisory fees:

Base management fee (Note 10)

Income incentive fee (Note 10)

Total investment advisory fees

Interest and credit facility expenses

Sub-administration fees

Legal fees

Valuation services

Audit, compliance and tax related fees

Allocation of overhead from Prospect Administration (Note 10)

Year Ended		
June 30, 2011	June 30, 2010	June 30, 2009
\$ 21,747	\$ 17,218	\$ 19,281
11,307	7,957	3,039
101,400	61,343	40,606
134,454	86,518	62,926
13,569	14,860	22,468
1,507	474	—
16	32	325
15,092	15,366	22,793
2,829	261	1,249
190	169	—
16,911	3,613	13,513
—	8,632	—
19,930	12,675	14,762
169,476	114,559	100,481
22,496	13,929	11,915
23,555	16,798	14,790
46,051	30,727	26,705
17,598	8,382	6,161
—	—	846
1,062	702	947
992	734	705
876	981	1,015
4,979	3,361	2,856

Insurance expense	285	254	246
Directors' fees	255	255	269
Potential merger expenses (Note 11)	—	852	—
Other general and administrative expenses	3,157	1,121	1,035
Excise taxes	—	—	533
Total Operating Expenses	75,255	47,369	41,318
Net Investment Income	94,221	67,190	59,163
Net realized gain (loss) on investments (Note 4)	16,465	(51,545)	(39,078)
Net change in unrealized appreciation on investments (Note 4)	7,552	3,980	15,019
Net Increase in Net Assets Resulting from Operations	\$ 118,238	\$ 19,625	\$ 35,104
Net increase in net assets resulting from operations per share: (Note 9 and Note 14)	\$ 1.38	\$ 0.33	\$ 1.11
Weighted average shares of common stock outstanding:	85,978,757	59,429,222	31,559,905

	Year Ended		
	June 30, 2011	June 30, 2010	June 30, 2009
Increase in Net Assets from Operations:			
Net investment income	\$ 94,221	\$ 67,190	\$ 59,163
Net gain (loss) on investments	16,465	(51,545)	(39,078)
Net change in unrealized appreciation on investments	7,552	3,980	15,019
Net Increase in Net Assets Resulting from Operations	118,238	19,625	35,104
Dividends to Shareholders	(106,167)	(101,034)	(36,519)
Capital Share Transactions:			
Net proceeds from capital shares sold	381,316	158,002	100,304
Less: Offering costs of public share offerings	(1,388)	(1,781)	(1,023)
Fair value of equity issued in conjunction with Patriot acquisition	—	92,800	—
Reinvestment of dividends	10,934	11,216	5,107
Net Increase in Net Assets Resulting from Capital Share Transactions	390,862	260,237	104,388
Total Increase in Net Assets:	402,933	178,828	102,973
Net assets at beginning of year	711,424	532,596	429,623
Net Assets at End of Year	\$ 1,114,357	\$ 711,424	\$ 532,596
Capital Share Activity:			
Shares sold	37,494,476	16,683,197	12,942,500
Shares issued for Patriot acquisition	—	8,444,068	—
Shares issued through reinvestment of dividends	1,025,352	1,016,513	480,205
Net increase in capital share activity	38,519,828	26,143,778	13,422,705
Shares outstanding at beginning of year	69,086,862	42,943,084	29,520,379
Shares Outstanding at End of Year	107,606,690	69,086,862	42,943,084

	Year Ended		
	June 30, 2011	June 30, 2010	June 30, 2009
Cash Flows from Operating Activities:			
Net increase in net assets resulting from operations	\$ 118,238	\$ 19,625	\$ 35,104
Net realized (gain) loss on investments	(16,465)	51,545	39,078
Net change in unrealized appreciation on investments	(7,552)	(3,980)	(15,019)

Accretion of purchase discount on investments	(23,035)	(20,313)	(2,399)
Amortization of deferred financing costs	5,365	5,297	759
Gain on Patriot acquisition (Note 3)	—	(8,632)	—
Change in operating assets and liabilities:			
Payments for purchases of investments	(943,703)	(150,108)	(96,144)
Payment-in-kind interest	(9,634)	(7,554)	(2,161)
Proceeds from sale of investments and collection of investment principal	285,862	136,221	27,007
Purchases of cash equivalents	—	(199,997)	(39,999)
Sales of cash equivalents	—	199,997	39,999
Net decrease (increase) of investments in money market funds	8,968	29,864	(65,735)
(Increase) decrease in interest receivable, net	(3,913)	530	532
Decrease in dividends receivable	1	27	4,220
Decrease in loan principal receivable	—	—	71
Decrease (increase) in other receivables	152	152	(4)
Decrease (increase) in prepaid expenses	270	(268)	205
Decrease in due from Prospect Administration	—	1,500	—
Decrease (increase) in other assets	534	(534)	—
(Decrease) increase in due to Prospect Administration	(82)	(548)	147
(Decrease) increase in due to Prospect Capital Management	(1,300)	3,135	(75)
Increase (decrease) in accrued expenses	1,819	(1,291)	1,277
Increase (decrease) in other liabilities	2,866	170	(863)
Net Cash (Used In) Provided By Operating Activities:	(581,609)	54,838	(74,000)
Cash Flows from Investing Activities:			
Acquisition of Patriot, net of cash acquired (Note 3)	—	(106,586)	—
Net Cash Used In Investing Activities:	—	(106,586)	—
Cash Flows from Financing Activities:			
Borrowings under Senior Convertible Notes (Note 6)	322,500	—	—
Borrowings under credit facility	465,900	244,100	100,157
Payments under credit facility	(482,000)	(268,600)	(66,524)
Financing costs paid and deferred	(13,061)	(5,925)	(6,270)
Net proceeds from issuance of common stock	381,316	158,001	100,304
Offering costs from issuance of common stock	(1,388)	(1,781)	(1,023)
Dividends paid	(91,247)	(82,908)	(43,257)
Net Cash Provided By Financing Activities:	582,020	42,887	83,387
Total Increase (Decrease) in Cash	411	(8,861)	9,387
Cash balance at beginning of year	1,081	9,942	555
Cash Balance at End of Year	\$ 1,492	\$ 1,081	\$ 9,942
Cash Paid For Interest	\$ 6,101	\$ 1,444	\$ 5,014
Non-Cash Financing Activity:			
Amount of shares issued in connection with dividend reinvestment plan	\$ 10,934	\$ 11,216	\$ 5,107
Fair value of shares issued in conjunction with	\$ —	\$ 92,800	\$ —

the Patriot Acquisition

78. The August 29, 2011, Form 10-K contained substantially similar Control and Procedures disclosures referenced in ¶56, *supra* and also attached to the filing as Exhibits 31.1 and 32.1, SOX certifications executed by Defendants Barry and as Exhibits 31.2 and 32.2, SOX certifications executed by Defendant Oswald, each substantially similar to the certifications referenced in ¶¶57-60, *supra*.

79. On November 9, 2011, the Company issued a press release announcing its first quarter financial results. The press release was entitled “Prospect Capital Reports Operating Results of \$0.37 per Share for Quarter Ended September 2011, an Increase of 32% From the Prior Sequential Quarter, Driving a \$0.05 per Share Increase in Net Asset Value”. The press release falsely stated, in part, as follows:

Prospect Capital Corporation (NASDAQ: PSEC) (“Company” or “Prospect”) today announced financial results for our first fiscal quarter ended September 30, 2011.

For the three months ended September 30, 2011, the increase in net assets resulting from operations was \$39.9 million, or \$0.37 per share. For the three months ended June 30, 2011, the increase in net assets resulting from operations was \$27.0 million or \$0.28 per share.

Our operating results increased 48.0%, and our operating results per share were up 32.1%, from the quarter ended June 30, 2011 to the quarter ended September 30, 2011. This increase is primarily due to investment income from new investments made during the June and September 2011 quarters, along with significant unrealized gains recognized in connection with several equity investments that have shown significant improvement in operating results.

Our net investment income (“NII”) was \$27.9 million and \$21.0 million for the three months ended September 30, 2011 and September 30, 2010, respectively, or \$0.26 per share and \$0.28 per share, respectively. NII increased \$6.9 million year over year due to a \$20.1 million increase in investment income offset by a \$13.2 million increase in operating expenses. Investment income was up primarily due to increases of \$13.0 million and \$5.4 million in interest income and dividend income, respectively, due to the larger size of our portfolio and an enhanced level of dividends received primarily from our investments in Gas Solutions Holdings, Inc. and NRG Manufacturing, Inc.

We are targeting growth in NII per share as we utilize prudent leverage to finance our growth through new originations, given our debt to equity ratio stood at less than 49% as of September 30, 2011. We estimate that our net investment income for the current second fiscal quarter ended December 31, 2011 will be \$0.26 to \$0.30 per share.

Our net asset value per share on September 30, 2011 stood at \$10.41 per share, an increase of \$0.05 per share from June 30, 2011. While market credit spreads widened during the September 2011 quarter, offering opportunities for enhanced profit from new originations, our portfolio continued to perform strongly, with no new loans on non-accrual and with increases in the value of our equity positions.

We recently declared our 40th, 41st, and 42nd consecutive cash distributions to shareholders, as follows:

10.1375 cents per share for November 2011 to holders of record on November 30, 2011 with a payment date of December 22, 2011;

10.1400 cents per share for December 2011 to holders of record on December 30, 2011 with a payment date of January 25, 2012; and

10.1425 cents per share for January 2012 to holders of record on January 31, 2012 with a payment date of February 17, 2012.

HIGHLIGHTS

Equity Values:

Net assets as of September 30, 2011: \$1.139 billion

Net asset value per share as of September 30, 2011: \$10.41

First Fiscal Quarter Operating Results:

Net investment income: \$27.88 million

Net investment income per share: \$0.26

Net increase in net assets resulting from operations: \$39.90 million

Net increase in net assets per share resulting from operations: \$0.37

Dividends to shareholders per share: \$0.303900

First Fiscal Quarter Portfolio and Portfolio Activity:

New portfolio investments in quarter: \$222.58 million

Total Portfolio investments at cost at September 30, 2011: \$1.599 billion

Total Portfolio investments at fair value at September 30, 2011: \$1.652 billion

Number of portfolio companies at September 30, 2011: 76

80. On November 9, 2011, the Company filed its Form 10-Q with the SEC. The 10-Q contained the same financial information as the press release dated and released the same day. It also contained substantially similar Control and Procedures disclosures referenced in ¶56, *supra* and also attached to the filing as Exhibits 31.1 and 32.1, SOX certifications executed by

Defendants Barry and as Exhibits 31.2 and 32.2, SOX certifications executed by Defendant Oswald, each substantially similar to the certifications referenced in ¶¶57-60, supra.

81. On February 9, 2012, the Company issued a press release announcing its second quarter financial results. The press release was entitled “Prospect Capital Reports Net Income of \$0.59 per Share for December 2011 Quarter, an Increase of 60% From the Prior Sequential Quarter, Driving a \$0.28 per Share Increase in Net Asset Value”. The press release falsely stated, in part, as follows:

Prospect Capital Corporation (NASDAQ: PSEC) (“PSEC”, “Prospect”, “we”, “our”, or “us”) today announced financial results for our second fiscal quarter ended December 31, 2011.

For the three and six months ended December 31, 2011, our net income was \$64.5 million and \$104.4 million, respectively, or \$0.59 per share and \$0.96 per share, respectively. For the September 2011 quarter, our net income was \$39.9 million or \$0.37 per share.

Our net income increased 62%, and our net income per share was up 60%, from the September 2011 quarter to the December 2011 quarter. These increases are primarily due to growing interest income from additional investments, higher dividend income from our investments in Energy Solutions Holdings, Inc. (“Energy Solutions”) and NRG Manufacturing, Inc. (“NRG”), and significant realized and unrealized gains recognized in connection with Energy Solutions and NRG. These companies have delivered significantly enhanced operating results, and NRG has generated realizations in December 2011 and early calendar year 2012.

Our net investment income (“NII”) was \$36.5 million and \$19.1 million for the December 2011 quarter and December 2010 quarter, respectively, or \$0.33 per share and \$0.23 per share, respectively. Our NII was \$64.4 million and \$40.1 million for the six months ended December 31, 2011 and December 31, 2010, respectively, or \$0.59 per share and \$0.51 per share, respectively. Our NII was \$27.9 million for the September 2011 quarter, or \$0.26 per share. Increases in the December 2011 quarter were primarily due to growing interest income from additional investments and higher dividends from our investments in Energy Solutions and NRG. Our NII per share in the December 2011 quarter represented an increase of 27% from the September 2011 quarter and an increase of 43% from the December 2010 quarter.

We are targeting growth in NII per share as we utilize prudent leverage to finance our growth through new originations, given our debt to equity ratio stood at less than 49% as of December 31, 2011 and stands at approximately 37% as of today. We estimate that our

NII for the current third fiscal quarter ended March 31, 2012 will be \$0.53 to \$0.58 per share.

Our net asset value per share on December 31, 2011 stood at \$10.69 per share, an increase of \$0.28 per share from September 30, 2011. Our portfolio continued to perform during the December 2011 quarter, with increases in the value of our assets. None of our loans originated in over four years has gone on non-accrual status.

We have generated cumulative NII in excess of cumulative distributions to shareholders for both the current August 2012 tax year as well as since Prospect's initial public offering almost eight years ago. Depending on future distributions to shareholders, spillback dividend classification, and other factors, we may retain significantly all or a portion of recent realizations and reinvest them in additional income-producing investments.

We recently declared our 43rd, 44th, and 45th consecutive cash distributions to shareholders, including 22 consecutive per share monthly cash distribution increases, as follows:

\$0.101450 per share for February 2012 payable to holders of record on February 29, 2012 with a payment date of March 23, 2012;

\$0.101475 per share for March 2012 payable to holders of record on March 30, 2012 with a payment date of April 20, 2012; and

\$0.101500 per share for April 2012 payable to holders of record on April 30, 2012 with a payment date of May 24, 2012.

HIGHLIGHTS

Equity Values:

Net assets as of December 31, 2011: \$1.172 billion

Net asset value per share as of December 31, 2011: \$10.69

Second Fiscal Quarter Operating Results:

Net investment income: \$36.51 million

Net investment income per share: \$0.33

Net increase in net assets resulting from operations: \$64.49 million

Net increase in net assets per share resulting from operations: \$0.59

Dividends to shareholders per share: \$0.304125

Second Fiscal Quarter Portfolio Activity:

New portfolio investments in quarter: \$154.70 million

Fiscal Year to Date Operating Results:

Net investment income: \$64.39 million

Net investment income per share: \$0.59

Net increase in net assets resulting from operations: \$104.39 million

Net increase in net assets per share resulting from operations: \$0.96

Dividends to shareholders per share: \$0.608025

Fiscal Year to Date Portfolio and Portfolio Activity:

New portfolio investments during the six months ended December 31, 2011: \$377.27 million

Total portfolio investments at cost at December 31, 2011: \$1.648 billion

Total portfolio investments at fair value at December 31, 2011: \$1.717 billion

Number of portfolio companies at December 31, 2011: 75

82. On February 9, 2012, the Company filed its Form 10-Q with the SEC. The 10-Q contained the same financial information as the press release dated and released the same day. It also contained substantially similar Control and Procedures disclosures referenced in ¶56, *supra* and also attached to the filing as Exhibits 31.1 and 32.1, SOX certifications executed by Defendants Barry and as Exhibits 31.2 and 32.2, SOX certifications executed by Defendant Oswald, each substantially similar to the certifications referenced in ¶¶57-60, *supra*.

83. On May 10, 2012, the Company issued a press release announcing its third fiscal quarter financial results. The press release was entitled “Prospect Capital Reports Record Net Investment Income of \$58.1 Million, or \$0.51 per Share for the March 2012 Quarter, an Increase of 59% From the Prior Quarter”. The press release falsely stated, in part, as follows:

Prospect Capital Corporation (NASDAQ: PSEC) (“PSEC”, “Prospect”, “we”, “our”, or “us”) today announced financial results for our third fiscal quarter ended March 31, 2012.

For the three and nine months ended March 31, 2012, our net income was \$50.2 million and \$154.6 million, respectively, or \$0.44 per share and \$1.39 per share, respectively. For the three and nine months ended March 31, 2011, our net income was \$33.8 million and \$91.3 million, respectively, or \$0.38 per share and \$1.11 per share, respectively.

Our net income increased 49%, and our net income per share increased 16%, from the March 2011 quarter to the March 2012 quarter. These increases are primarily due to growing interest income from additional investments, a loan prepayment premium received from NRG Manufacturing, Inc. (“NRG”), higher dividend income from our investments in Energy Solutions Holdings, Inc. (“Energy Solutions”) and NRG, and fees recognized in connection with the sale of our stock in NRG and the sale by Energy Solutions of its gas processing business.

Our net investment income (“NII”) was \$58.1 million and \$24.0 million for the March 2012 quarter and March 2011 quarter, respectively, or \$0.51 per share and \$0.27 per share, respectively. Our NII was \$122.5 million and \$64.0 million for the nine months ended March 31, 2012 and March 31, 2011, respectively, or \$1.10 per share and \$0.78 per share, respectively. Our NII was \$36.5 million for the December 2011 quarter, or \$0.33 per share. Our NII per share in the March 2012 quarter represented an increase of 55% from the December 2011 quarter and an increase of 89% from the March 2011 quarter.

We are targeting continued growth in NII per share as we utilize prudent leverage to finance our growth through new originations, given our debt to equity ratio stood at less than 34% as of March 31, 2012. We estimate that our NII for the current fourth fiscal quarter ended June 30, 2012 will be \$0.38 to \$0.43 per share.

Our net asset value per share on March 31, 2012 stood at \$10.82 per share, an increase of \$0.13 per share from December 31, 2011. This growth represents our sixth consecutive quarterly increase in net asset value per share. Our portfolio continued to perform during the March 2012 quarter. None of our loans originated in over four years have gone on non-accrual status.

We have generated cumulative NII in excess of cumulative distributions to shareholders for both (i) the current August 2012 tax year (\$98.2 million of NII from September 1, 2011 through March 31, 2012, compared to shareholder distributions of \$80.3 million during the same period) and (ii) since Prospect's initial public offering almost eight years ago. Depending on future distributions to shareholders, spillback dividend classifications, differences between NII and investment company taxable income, and other factors, we may retain significantly all or a portion of recent realizations and reinvest them in additional income-producing investments.

We recently declared our 46th, 47th, 48th, and 49th consecutive cash distributions to shareholders, including 26 consecutive per share monthly cash distribution increases, as follows:

\$0.101525 per share for May 2012 payable to holders of record on May 31, 2012 with a payment date of June 22, 2012;

\$0.101550 per share for June 2012 payable to holders of record on June 29, 2012 with a payment date of July 24, 2012;

\$0.101575 per share for July 2012 payable to holders of record on July 31, 2012 with a payment date of August 24, 2012; and

\$0.101600 per share for August 2012 payable to holders of record on August 31, 2012 with a payment date of September 21, 2012.

HIGHLIGHTS

Equity Values:

Net assets as of March 31, 2012: \$1.319 billion

Net asset value per share as of March 31, 2012: \$10.82

Third Fiscal Quarter Operating Results:

Net investment income: \$58.07 million

Net investment income per share: \$0.51

Net increase in net assets resulting from operations: \$50.21 million

Net increase in net assets per share resulting from operations: \$0.44

Dividends to shareholders per share: \$0.304350

Third Fiscal Quarter Portfolio Activity:

New portfolio investments in quarter: \$170.07 million

Fiscal Year to Date Operating Results:

Net investment income: \$122.46 million

Net investment income per share: \$1.10

Net increase in net assets resulting from operations: \$154.60 million

Net increase in net assets per share resulting from operations: \$1.39

Dividends to shareholders per share: \$0.912375

Fiscal Year to Date Portfolio and Portfolio Activity:

New portfolio investments during the nine months ended March 31, 2012: \$547.34 million

Total portfolio investments at cost at March 31, 2012: \$1.656 billion

Total portfolio investments at fair value at March 31, 2012: \$1.692 billion

Number of portfolio companies at March 31, 2012: 78

84. On May 10, 2012, the Company filed its Form 10-Q with the SEC. The 10-Q contained the same financial information as the press release dated and released the same day. It also contained substantially similar Control and Procedures disclosures referenced in ¶56, supra and also attached to the filing as Exhibits 31.1 and 32.1, SOX certifications executed by Defendants Barry and as Exhibits 31.2 and 32.2, SOX certifications executed by Defendant Oswald, each substantially similar to the certifications referenced in ¶¶57-60, supra.

85. On August 22, 2012, the Company issued a press release announcing its fourth fiscal quarter and fiscal year ended June 30, 2012, financial results. The press release was

entitled “Prospect Capital Announces 48% Increase in Net Investment Income per Share and \$0.47 per Share Increase in Net Asset Value for June 2012 Fiscal Year, Including \$0.51 of Net Investment Income per Share in June 2012 Quarter”. The press release falsely stated, in part, as follows:

Prospect Capital Corporation (NASDAQ: PSEC) (“Company” or “Prospect”) today announced financial results for our fourth fiscal quarter and fiscal year ended June 30, 2012.

For the June 2012 fiscal year, our net investment income (“NII”) was \$186.7 million, an increase of 98% from the prior year on a dollars basis. On a weighted average share basis, NII increased from \$1.10 for the June 2011 fiscal year to \$1.63 for the June 2012 fiscal year, an increase of 48%.

Our net asset value per share on June 30, 2012 stood at \$10.83 per share, an increase of \$0.47 per share from June 30, 2011, and an increase of \$0.01 per share from March 31, 2012.

For the June 2012 quarter, our NII was \$64.2 million or \$0.51 per weighted average number of shares for the quarter, representing increases of 113% and 66% year-over-year, respectively.

For the June 2011 quarter, our NII was \$30.2 million or \$0.31 per weighted average number of shares for the quarter.

We are targeting continued growth in NII per share as we utilize prudent leverage to finance our growth through new originations, given our debt to equity ratio stood at less than 44% (and less than 36% after subtraction of cash and equivalents) as of June 30, 2012. We estimate that our net investment income for the current September 2012 quarter will be \$0.41 to \$0.46 per share.

We have previously announced our upcoming cash distributions, our 49th, 50th, and 51st consecutive cash distributions to shareholders, as follows:

\$0.101600 per share for August 2012 (record date of August 31, 2012 and payment date of September 21, 2012);

\$0.101625 per share for September 2012 (record date of September 28, 2012 and payment date of October 24, 2012); and

\$0.101650 per share for October 2012 (record date of October 31, 2012 and payment date of November 22, 2012).

We have generated cumulative NII in excess of cumulative distributions to shareholders for both (i) the current August 2012 tax year (\$173.0 million of NII from September 1, 2011 through June 30, 2012, compared to shareholder distributions of \$119.2 million during the same period) and (ii) since Prospect's initial public offering eight years ago.

Our NII per weighted average share exceeded our cash distributions per share in each of the June 2012 quarter, March 2012 quarter, December 2011 quarter, and June 2012 fiscal year. Depending on future distributions to shareholders, spillback dividend classifications, differences between NII and investment company taxable income, and other factors, we may retain significantly all or a portion of recent realizations and reinvest them in additional income-producing investments.

Based on past distributions and assuming its current share count for upcoming distributions, Prospect since inception through its October 2012 distribution will have distributed more than \$10.40 per share to original shareholders and \$530 million in cumulative distributions to all shareholders.

HIGHLIGHTS

Equity Values:

Net assets as of June 30, 2012: \$1.512 billion

Net asset value per share as of June 30, 2012: \$10.83

Fiscal Year Operating Results:

Net investment income: \$186.68 million

Net investment income per share: \$1.63

Dividends to shareholders per share: \$1.21695

Fourth Fiscal Quarter Operating Results:

Net investment income: \$64.23 million

Net investment income per share: \$0.51

Dividends to shareholders per share: \$0.304575

Fourth Fiscal Quarter Portfolio and Investment Activity:

Portfolio investments in quarter: \$573.31 million

Total Portfolio investments at cost at June 30, 2012: \$2.099 billion

Number of portfolio companies at June 30, 2012: 82

PORTFOLIO AND INVESTMENT ACTIVITY

* * *

We are pleased with the overall credit quality of our portfolio, with many of our companies generating year-over-year and sequential growth in top-line revenues and bottom-line profits. None of our loans originated in nearly five years have gone on non-accrual status. The fair market value of our loan assets on non-accrual as a percentage of

total assets stood at approximately 1.9% on June 30, 2012, down from 2.2% on March 31, 2012 and 3.5% on June 30, 2011.

Because of the performance of several controlled positions in our portfolio, we have selectively monetized certain such companies and may monetize other positions if we identify attractive opportunities for exit. As such exits materialize, we expect to reinvest such proceeds into new income-producing opportunities. We are pleased with the performance of our controlled portfolio companies, and are actively exploring other new investment opportunities at attractive multiples of cash flow.

Our advanced investment pipeline aggregates more than \$600 million of potential opportunities. These investments are primarily secured investments with double-digit coupons, sometimes coupled with equity upside through additional investments, and diversified across multiple sectors.

LIQUIDITY AND FINANCIAL RESULTS

Our modestly leveraged balance sheet is a source of significant strength. Our debt to equity ratio stood at less than 44% (and less than 36% after subtraction of cash and equivalents) at June 30, 2012. Our equitized balance sheet also gives us the potential for future earnings upside as we prudently look to utilize and grow our existing revolving credit facility as well as potentially add additional secured or unsecured term facilities, made more attractive by our investment-grade ratings at corporate, revolving facility, and term debt levels.

On March 27, 2012, we renegotiated our credit facility and closed on an expanded five-year revolving credit facility (the "Facility") for Prospect Capital Funding LLC. As of March 31, 2012, ten original lenders had extended commitments of \$410 million under the Facility. We have since increased the Facility size to \$507.5 million with commitments from five additional lenders and increased commitments from existing lenders, thereby bringing the total number of lenders to 15. The Facility includes an accordion feature which allows aggregate commitments to be increased to up to \$650 million without the need for re-approval from the existing lenders or the rating agency.

As we make additional investments, we generate additional availability to the extent such investments are eligible to be placed into the borrowing base. The revolving period of the Facility extends through March 2015, with an additional two-year amortization period, with distributions allowed after the completion of the revolving period. Interest on borrowings under the Facility is one-month Libor plus 275 basis points, with no minimum Libor floor. The Facility continues to carry a high-investment-grade Moody's rating of Aa3.

We also have significantly diversified our counterparty risk. We currently have 15 institutional lenders in our Facility, up from five lenders at June 30, 2010, two lenders at June 30, 2009, and one lender at June 30, 2008.

In addition, our repeat issuance in the past year in the five-year, seven-year, ten-year, and greater unsecured term debt market has extended our liability duration, thereby better matching our assets and liabilities for balance sheet risk management.

On December 21, 2010, we issued \$150.0 million in principal amount of 6.25% senior unsecured convertible notes, convertible at \$11.35 per common share and due December 2015 (“2015 Notes”).

On February 18, 2011, we issued \$172.5 million in principal amount of 5.50% senior unsecured convertible notes, convertible at \$12.76 per common share and due August 2016 (“2016 Notes”). In the March 2012 quarter, we repurchased \$5.0 million of our 2016 Notes.

On April 16, 2012, we issued \$130.0 million in principal amount of 5.375% senior unsecured convertible notes, convertible at \$11.65 per common share and due October 2017 (“2017 Notes”).

On August 14, 2012, we issued \$200.0 million in principal amount of 5.75% senior unsecured convertible notes, convertible at \$12.14 per common share and due March 2018 (“2018 Notes,” and together with the 2015 Notes, 2016 Notes, and 2017 Notes, the “Convertible Notes”).

On February 16, 2012, we entered into a Selling Agent Agreement (the “Selling Agent Agreement”) with Incapital LLC, as purchasing agent for our issuance and sale from time to time of senior unsecured Prospect Capital InterNotes® (the “InterNotes”).

During the June 2012 fiscal year, we issued \$20.6 million in principal amount of InterNotes. These notes were issued with interest rates ranging from 6.50% to 7.00% with an average rate of 6.78%. These notes mature between June 15, 2019 and June 15, 2022. In the current September 2012 quarter, we have issued an additional \$38.5 million in principal amount of InterNotes. The average interest rate for the \$59.1 million total InterNotes issued to date is 6.41%.

On May 1, 2012, we issued \$100.0 million in principal amount of 6.95% senior unsecured notes due November 2022 (the “2022 Baby Bond Notes,” and together with our Convertible Notes and our InterNotes, the “Unsecured Notes”). The 2022 Baby Bond Notes trade on the New York Stock Exchange with ticker PRY and further demonstrate our diversified access to longer-dated funding.

The Unsecured Notes are general unsecured obligations of Prospect, with no financial covenants, no technical cross default provisions, and no payment cross default provisions with respect to our revolving credit facility. The Unsecured Notes have no restrictions related to the type and security of assets in which Prospect might invest. The issuance of these notes has allowed us to grow our investment program in calendar year 2012 and commit to loans with maturities longer than our existing revolving credit facility maturity. These Unsecured Notes have an investment-grade S&P rating of BBB. As of

June 30, 2012, Prospect held more than \$1.46 billion of unencumbered assets on its balance sheet to benefit holders of Unsecured Notes and Prospect shareholders.

Since March 31, 2012, we have completed two equity issuances at prices above net asset value per share.

On June 1, 2012, we and KeyBanc Capital Markets Inc. entered into an equity distribution agreement relating to sales by us through KeyBanc Capital Markets, by means of at-the-market offerings from time to time, of up to 9,500,000 shares of our common stock. During the period from June 7, 2012 to July 9, 2012, we sold 5,199,764 shares of our common stock at an average price of \$11.38 per share, and raised \$59.2 million of gross proceeds.

On July 16, 2012 and subsequently through exercise of the underwriter option, we issued 24,150,000 shares of our common stock at \$11.15 per share, raising \$269.3 million of gross proceeds.

We currently have no borrowings under our Facility. Assuming sufficient assets are pledged to the Facility and that we are in compliance with all Facility terms, and taking into account our cash balances on hand, we have over \$600 million of new investment capacity. Any principal repayments or other monetizations of our assets would further increase our new investment capacity. Any issuance of equity, increase in our Facility size, or issuance of other debt, including additional term debt, would also further increase our investment capacity.

86. On August 22, 2012, Prospect filed with the SEC a Form 10-K which contained the financial results announced in the press release issued the same day. Specifically, the Form 10-K falsely reported the following:

**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**
(in thousands, except share and per share data)

	June 30, 2012	June 30, 2011
Assets (Note 5)		
Investments at fair value:		
Control investments (net cost of \$518,015 and \$262,301, respectively)	\$ 564,489	\$ 310,072
Affiliate investments (net cost of \$44,229 and \$56,833, respectively)	46,116	72,337
Non-control/Non-affiliate investments (net cost of \$1,537,069 and \$1,116,601, respectively)	1,483,616	1,080,601
Total investments at fair value (net cost of \$2,099,313 and \$1,435,734, respectively, Note 4)	2,094,221	1,463,010
Investments in money market funds	118,369	59,903
Cash	2,825	1,492
Receivables for:		
Interest, net	14,219	9,269

Dividends	1	—
Other	783	267
Prepaid expenses	421	101
Deferred financing costs	24,415	15,275
Total Assets	2,255,254	1,549,317
Liabilities		
Credit facility payable (Note 5)	96,000	84,200
Senior convertible notes (Note 6)	447,500	322,500
Senior unsecured notes (Note 7)	100,000	—
Prospect Capital InterNotes® (Note 8)	20,638	—
Dividends payable	14,180	10,895
Due to Prospect Administration (Note 12)	658	212
Due to Prospect Capital Management (Note 12)	7,913	7,706
Due to Broker	44,533	—
Accrued expenses	9,648	5,876
Other liabilities	2,210	3,571
Total Liabilities	743,280	434,960
Net Assets	\$1,511,974	\$1,114,357
Components of Net Assets		
Common stock, par value \$0.001 per share (500,000,000 common shares authorized; 139,633,870 and 107,606,690 issued and outstanding, respectively) (Note 9 and Note 17)	\$ 140	\$ 108
Paid-in capital in excess of par (Note 9)	1,544,801	1,196,741
Undistributed (distributions in excess of) net investment income	23,667	(21,638)
Accumulated realized losses on investments	(51,542)	(88,130)
Unrealized (depreciation) appreciation on investments	(5,092)	27,276
Net Assets	\$1,511,974	\$1,114,357
Net Asset Value Per Share	\$ 10.83	\$ 10.36

	Year Ended		
	June 30, 2012	June 30, 2011	June 30, 2010
Investment Income			
Interest income: (Note 4)			
Control investments	\$ 53,408	\$ 21,747	\$ 17,218
Affiliate investments	12,155	11,307	7,957
Non-control/Non-affiliate investments	144,592	101,400	61,343
CLO Fund securities	9,381	—	—
Total interest income	219,536	134,454	86,518
Dividend income:			
Control investments	63,144	13,569	14,860
Non-control/Non-affiliate investments	1,733	1,507	474
Money market funds	4	16	32
Total dividend income	64,881	15,092	15,366
Other income: (Note 10)			
Control investments	25,464	2,829	261
Affiliate investments	108	190	169
Non-control/Non-affiliate investments	10,921	16,911	3,613
Gain on Patriot acquisition (Note 3)	—	—	8,632
Total other income	36,493	19,930	12,675
Total Investment Income	320,910	169,476	114,559
Operating Expenses			

Investment advisory fees:			
Base management fee (Note 12)	35,836	22,496	13,929
Income incentive fee (Note 12)	46,671	23,555	16,798
Total investment advisory fees	<u>82,507</u>	<u>46,051</u>	<u>30,727</u>
Interest and credit facility expenses	38,534	17,598	8,382
Legal fees	279	1,062	702
Valuation services	1,212	992	734
Audit, compliance and tax related fees	1,446	876	981
Allocation of overhead from Prospect			
Administration (Note 12)	6,848	4,979	3,361
Insurance expense	324	285	254
Directors' fees	273	255	255
Potential merger expenses (Note 13)	—	—	852
Other general and administrative expenses	2,803	3,157	1,121
Total Operating Expenses	<u>134,226</u>	<u>75,255</u>	<u>47,369</u>
Net Investment Income	<u>186,684</u>	<u>94,221</u>	<u>67,190</u>
Net realized gain (loss) on investments (Note 4)	36,588	16,465	(51,545)
Net change in unrealized (depreciation) appreciation on investments (Note 4)	<u>(32,368)</u>	<u>7,552</u>	<u>3,980</u>
Net Increase in Net Assets Resulting from Operations	<u>\$ 190,904</u>	<u>\$ 118,238</u>	<u>\$ 19,625</u>
Net increase in net assets resulting from operations per share: (Note 11 and Note 16)	<u>\$ 1.67</u>	<u>\$ 1.38</u>	<u>\$ 0.33</u>
Weighted average shares of common stock outstanding:	<u>114,394,554</u>	<u>85,978,757</u>	<u>59,429,222</u>

	Year Ended		
	June 30, 2012	June 30, 2011	June 30, 2010
Increase in Net Assets from Operations:			
Net investment income	\$ 186,684	\$ 94,221	\$ 67,190
Net gain (loss) on investments	36,588	16,465	(51,545)
Net change in unrealized (depreciation) appreciation on investments	<u>(32,368)</u>	<u>7,552</u>	<u>3,980</u>
Net Increase in Net Assets Resulting from Operations	<u>190,904</u>	<u>118,238</u>	<u>19,625</u>
Dividends to Shareholders	<u>(141,379)</u>	<u>(106,167)</u>	<u>(101,034)</u>
Capital Share Transactions:			
Net proceeds from capital shares sold	338,270	381,316	158,002
Less: Offering costs of public share offerings	(708)	(1,388)	(1,781)
Fair value of equity issued in conjunction with Patriot acquisition	—	—	92,800
Reinvestment of dividends	<u>10,530</u>	<u>10,934</u>	<u>11,216</u>
Net Increase in Net Assets Resulting from Capital	<u>348,092</u>	<u>390,862</u>	<u>260,237</u>

Share Transactions			
Total Increase in Net Assets:	397,617	402,933	178,828
Net assets at beginning of year	1,114,357	711,424	532,596
Net Assets at End of Year	\$ 1,511,974	\$ 1,114,357	\$ 711,424
Capital Share Activity:			
Shares sold	30,970,696	37,494,476	16,683,197
Shares issued for Patriot acquisition	—	—	8,444,068
Shares issued through reinvestment of dividends	1,056,484	1,025,352	1,016,513
Net increase in capital share activity	32,027,180	38,519,828	26,143,778
Shares outstanding at beginning of year	107,606,690	69,086,862	42,943,084
Shares Outstanding at End of Year	139,633,870	107,606,690	69,086,862

	Year Ended		
	June 30, 2012	June 30, 2011	June 30, 2010
Cash Flows from Operating Activities:			
Net increase in net assets resulting from operations	\$ 190,904	\$ 118,238	\$ 19,625
Net realized (gain) loss on investments	(36,588)	(16,465)	51,545
Net change in unrealized depreciation (appreciation) on investments	32,368	(7,552)	(3,980)
Accretion of purchase discount on investments	(7,284)	(23,035)	(20,313)
Amortization of deferred financing costs	8,511	5,365	5,297
Gain on Patriot acquisition (Note 3)	—	—	(8,632)
Structuring fees	(8,075)	—	—
Change in operating assets and liabilities:			
Payments for purchases of investments	(1,062,404)	(943,703)	(150,108)
Payment-in-kind interest	(5,647)	(9,634)	(7,554)
Proceeds from sale of investments and collection of investment principal	500,952	285,862	136,221
Purchases of cash equivalents	—	—	(199,997)
Sales of cash equivalents	—	—	199,997
Net (increase) decrease of investments in money market funds	(58,466)	8,968	29,864
(Increase) decrease in interest receivable, net	(4,950)	(3,913)	530
(Increase) decrease in dividends receivable	(1)	1	27
(Increase) decrease in other receivables	(516)	152	152
(Increase) decrease in prepaid expenses	(320)	270	(268)
Decrease in due from Prospect Administration	—	—	1,500
Decrease (increase) in other assets	—	534	(534)
Increase (decrease) in due to Prospect Administration	446	(82)	(548)
Increase (decrease) in due to Prospect Capital Management	207	(1,300)	3,135
Increase (decrease) in accrued expenses	3,772	1,819	(1,291)
(Decrease) increase in other	(1,361)	2,866	170

liabilities			
Net Cash (Used In) Provided By Operating Activities:	<u>(448,452)</u>	<u>(581,609)</u>	<u>54,838</u>
Cash Flows from Investing Activities:			
Acquisition of Patriot, net of cash acquired (Note 3)	<u>—</u>	<u>—</u>	<u>(106,586)</u>
Net Cash Used In Investing Activities:	<u>—</u>	<u>—</u>	<u>(106,586)</u>
Cash Flows from Financing Activities:			
Borrowings under credit facility (Note 5)	726,800	465,900	244,100
Payments under credit facility (Note 5)	(715,000)	(482,000)	(268,600)
Issuance of Senior Convertible Notes (Note 6)	130,000	322,500	—
Repurchases under Senior Convertible Notes (Note 6)	(5,000)	—	—
Issuance of Senior Unsecured Notes (Note 7)	100,000	—	—
Issuance of Prospect Capital InterNotes® (Note 8)	20,638	—	—
Financing costs paid and deferred	(17,651)	(13,061)	(5,925)
Net proceeds from issuance of common stock	338,270	381,316	158,001
Offering costs from issuance of common stock	(708)	(1,388)	(1,781)
Dividends paid	(127,564)	(91,247)	(82,908)
Net Cash Provided By Financing Activities:	<u>449,785</u>	<u>582,020</u>	<u>42,887</u>
Total Increase (Decrease) in Cash	<u>1,332</u>	<u>411</u>	<u>(8,861)</u>
Cash balance at beginning of year	1,492	1,081	9,942
Cash Balance at End of Year	<u>\$ 2,825</u>	<u>\$ 1,492</u>	<u>\$ 1,081</u>
Cash Paid For Interest	<u>\$ 24,515</u>	<u>\$ 6,101</u>	<u>\$ 1,444</u>
Non-Cash Financing Activity:			
Amount of shares issued in connection with dividend reinvestment plan	<u>\$ 10,530</u>	<u>\$ 10,934</u>	<u>\$ 11,216</u>
Fair value of shares issued in conjunction with the Patriot Acquisition	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 92,800</u>
Fair value of shares issued in conjunction with the First Tower investment	<u>\$ 160,571</u>	<u>\$ —</u>	<u>\$ —</u>

87. The August 22, 2012, Form 10-K contained substantially similar Control and Procedures disclosures referenced in ¶56, supra and also attached to the filing as Exhibits 31.1 and 32.1, SOX certifications executed by Defendants Barry and as Exhibits 31.2 and 32.2, SOX certifications executed by Defendant Oswald, each substantially similar to the certifications referenced in ¶¶57-60, supra.

88. On November 8, 2012, the Company issued a press release announcing its first quarter financial results. The press release was entitled “Prospect Capital Announces 77% Increase in Net Investment Income per Share and \$0.47 Increase in Net Asset Value per Share

for First Fiscal Quarter Over Prior Year First Fiscal Quarter”. The press release falsely stated, in part, as follows:

Prospect Capital Corporation (NASDAQ: PSEC) (“Company” or “Prospect”) today announced financial results for our first fiscal quarter ended September 30, 2012.

For the September 2012 quarter, our net investment income (“NII”) was \$74.0 million or \$0.46 per weighted average number of shares for the quarter. For the September 2011 quarter, our NII was \$27.9 million or \$0.26 per weighted average number of shares for the quarter. NII increased year-over-year by 166% and 77% on a dollars and per share basis, respectively.

Our net asset value per share on September 30, 2012 stood at \$10.88 per share, an increase of \$0.05 per share from June 30, 2012, and an increase of \$0.47 per share from September 30, 2011.

We are targeting continued growth in NII per share as we utilize prudent leverage to finance our growth through new originations, given our debt to equity ratio stood at less than 45% (and less than 35% after subtraction of cash and equivalents) as of September 30, 2012. We estimate that our net investment income for the current December 2012 quarter will be \$0.41 to \$0.46 per share.

We have previously announced our upcoming cash distributions, our 52nd, 53rd, and 54th consecutive cash distributions to shareholders, as follows:

\$0.101675 per share for November 2012 (record date of November 30, 2012 and payment date of December 20, 2012);

\$0.101700 per share for December 2012 (record date of December 31, 2012 and payment date of January 23, 2013); and

\$0.101725 per share for January 2013 (record date of January 31, 2013 and payment date of February 20, 2013).

We have generated cumulative NII in excess of cumulative distributions to shareholders in the current fiscal year to date, in the prior fiscal year, and since Prospect's initial public offering eight years ago.

Our NII per weighted average share exceeded our cash distributions per share in each of the September 2012, June 2012, March 2012, and December 2011 quarters. Depending on future distributions to shareholders, spillback dividend classifications, differences between NII and investment company taxable income, and other factors, we may retain significantly all or a portion of recent realizations and reinvest them in additional income-producing investments.

Based on past distributions and assuming our current share count for upcoming distributions, Prospect since our IPO eight years ago through our January 2013 distribution will have distributed more than \$10.70 per share to original shareholders and \$595 million in cumulative distributions to all shareholders.

HIGHLIGHTS

Equity Values:

Net assets as of September 30, 2012: \$1.883 billion

Net asset value per share as of September 30, 2012: \$10.88

First Fiscal Quarter Operating Results:

Net investment income: \$74.03 million

Net investment income per share: \$0.46

Dividends to shareholders per share: \$0.304800

First Fiscal Quarter Portfolio and Investment Activity:

Portfolio investments in quarter: \$747.94 million

Total Portfolio investments at cost at September 30, 2012: \$2.698 billion

Number of portfolio companies at September 30, 2012: 96

89. On November 8, 2012, the Company filed its Form 10-Q with the SEC. The 10-Q contained the same financial information as the press release dated and released the same day. It also contained substantially similar Control and Procedures disclosures referenced in ¶56, *supra* and also attached to the filing as Exhibits 31.1 and 32.1, SOX certifications executed by Defendants Barry and as Exhibits 31.2 and 32.2, SOX certifications executed by Defendant Oswald, each substantially similar to the certifications referenced in ¶¶57-60, *supra*.

90. On February 7, 2013, the Company issued a press release announcing its second quarter financial results. The press release was entitled “Prospect Capital Announces 55% Increase in Net Investment Income per Share and \$0.12 Increase in Net Asset Value per Share for Second Fiscal Quarter Over Prior Year Second Fiscal Quarter”. The press release falsely stated, in part, as follows:

Prospect Capital Corporation (NASDAQ: PSEC) (“Company” or “Prospect”) today announced financial results for our second fiscal quarter ended December 31, 2012.

For the December 2012 quarter, our net investment income (“NII”) was \$99.2 million or \$0.51 per weighted average number of shares for the quarter. For the December 2011 quarter, our NII was \$36.5 million or \$0.33 per weighted average number of shares for the quarter. NII increased year-over-year by 172% and 55% on a dollars and per share basis, respectively.

For the six months ended December 2012, our NII was \$173.2 million or \$0.97 per weighted average number of shares for the period. For the six months ended December 31, 2011, our NII was \$64.4 million or \$0.59 per weighted average number of shares for the period.

Our net asset value per share on December 31, 2012 stood at \$10.81 per share, an increase of \$0.12 per share from December 31, 2011. Our debt to equity ratio stood at 47.8% (29.2% after subtraction of cash and cash equivalents) as of December 31, 2012. We estimate that our net investment income for the current March 2013 quarter will be \$0.27 to \$0.31 per share.

We have previously announced our upcoming cash distributions, our 55th, 56th, and 57th consecutive cash distributions to shareholders, as follows:

\$0.110050 per share for February 2013 (record date of February 28, 2013 and payment date of March 21, 2013);

\$0.110075 per share for March 2013 (record date of March 29, 2013 and payment date of April 18, 2013); and

\$0.110100 per share for April 2013 (record date of April 30, 2013 and payment date of May 23, 2013).

We have generated cumulative NII in excess of cumulative distributions to shareholders in the current fiscal year to date, in the prior fiscal year, and since Prospect's initial public offering nine years ago.

Our NII per weighted average share exceeded our cash distributions per share in each of the last five quarters. Depending on future distributions to shareholders, spillback dividend classifications, differences between NII and investment company taxable income, and other factors, we may retain significantly all or a portion of realizations and reinvest them in additional income-producing investments.

Since our IPO nine years ago through our April 2013 distribution, assuming our current share count for upcoming distributions, we will have distributed more than \$11.05 per share to original shareholders and \$675 million in cumulative distributions to all shareholders.

HIGHLIGHTS

Equity Values:

Net assets as of December 31, 2012: \$2.327 billion

Net asset value per share as of December 31, 2012: \$10.81

Second Fiscal Quarter Operating Results:

Net investment income: \$99.22 million

Net investment income per share: \$0.51

Dividends to shareholders per share: \$0.313325

Fiscal Year to Date Operating Results:

Net investment income: \$173.24 million

Net investment income per share: \$0.97

Net increase in net assets resulting from operations: \$93.74 million

Net increase in net assets per share resulting from operations: \$0.52

Dividends to shareholders per share: \$0.618125

Second Quarter and Fiscal Year to Date Portfolio and Investment Activity:

Portfolio investments in quarter: \$772.13 million

Portfolio investments during the six months ended December 31, 2012: \$1.520 billion

Total Portfolio investments at cost at December 31, 2012: \$3.117 billion

Total portfolio investments at fair value at December 31, 2012: \$3.039 billion

Number of portfolio companies at December 31, 2012: 106

91. On February 7, 2013, the Company filed its Form 10-Q with the SEC. The 10-Q contained the same financial information as the press release dated and issued the same day. It also contained substantially similar Control and Procedures disclosures referenced in ¶56, *supra* and also attached to the filing as Exhibits 31.1 and 32.1, SOX certifications executed by Defendants Barry and as Exhibits 31.2 and 32.2, SOX certifications executed by Defendant Oswald, each substantially similar to the certifications referenced in ¶¶57-60, *supra*.

92. On May 6, 2013, the Company issued a press release announcing its third quarter financial results. The press release was entitled “Prospect Capital Announces 90% Increase in Net Investment Income for First Three Fiscal Quarters Over Prior Year”. The press release falsely stated, in part, as follows:

Prospect Capital Corporation (NASDAQ: PSEC) (“Company” or “Prospect”) today announced financial results for our third fiscal quarter ended March 31, 2013.

For the nine months ended March 2013, our NII was \$232.8 million or \$1.20 per weighted average number of shares for the period. For the nine months ended March 31, 2012, our NII was \$122.5 million or \$1.10 per weighted average number of shares for the period. NII increased by 90% from the nine months ended March 2012 to the nine months ended March 2013.

For the March 2013 quarter, our net investment income (“NII”) was \$59.6 million or \$0.26 per weighted average number of shares for the quarter. For the March 2012 quarter, a quarter positively impacted by significant event-driven income activity related to exits in the portfolio, our NII was \$58.1 million or \$0.51 per weighted average number of shares for the quarter.

Our debt to equity ratio stood at a modest 43.7% after subtraction of cash and equivalents as of March 31, 2013, compared to 29.2% after subtraction of cash and equivalents as of December 31, 2012. Our net asset value per share on March 31, 2013 stood at \$10.71 per share, a decrease of \$0.10 per share from December 31, 2012. We estimate that our net investment income for the current June 2013 quarter will be \$0.26 to \$0.32 per share.

Our objective is to grow net investment income per share in the coming quarters by focusing on prudently increased levels of matched-book funding to finance disciplined and accretive originations across our diversified lines of business.

We have previously announced our upcoming monthly cash distributions, our 58th, 59th, 60th, and 61st consecutive cash distributions to shareholders, as follows:

\$0.110125 per share for May 2013 (record date of May 31, 2013 and payment date of June 20, 2013);

\$0.110150 per share for June 2013 (record date of June 28, 2013 and payment date of July 18, 2013);

\$0.110175 per share for July 2013 (record date of July 31, 2013 and payment date of August 22, 2013); and

\$0.110200 per share for August 2013 (record date of August 30, 2013 and payment date of September 19, 2013).

We have generated cumulative NII in excess of cumulative distributions to shareholders in the current fiscal year to date, in the prior fiscal year, and since Prospect's initial public offering nine years ago. For the current fiscal year as of

March 31, 2013, our NII in excess of distributions to shareholders stands at \$42.5 million and \$0.22 per share.

Since our IPO nine years ago through our August 2013 distribution, assuming our current share count for upcoming distributions, we will have distributed more than \$11.49 per share to initial shareholders and \$785 million in cumulative distributions to all shareholders.

HIGHLIGHTS

Equity Values:

Net assets as of March 31, 2013: \$2.556 billion

Net asset value per share as of March 31, 2013: \$10.71

Third Fiscal Quarter Operating Results:

Net investment income: \$59.59 million

Net investment income per share: \$0.26

Dividends to shareholders per share: \$0.330150

Fiscal Year to Date Operating Results:

Net investment income: \$232.83 million

Net investment income per share: \$1.20

Net increase in net assets resulting from operations: \$138.17 million

Net increase in net assets per share resulting from operations: \$0.71

Dividends to shareholders per share: \$0.948275

Third Quarter and Fiscal Year to Date Portfolio and Investment Activity:

Portfolio investments in quarter: \$784.40 million

Portfolio investments during the nine months ended March 31, 2013: \$2.304 billion

Total Portfolio investments at cost at March 31, 2013: \$3.795 billion

Total portfolio investments at fair value at March 31, 2013: \$3.708 billion

Number of portfolio companies at March 31, 2013: 120

93. On May 6, 2013, the Company filed its Form 10-Q with the SEC. The 10-Q contained the same financial information as the press release issued and dated the same day. It also contained substantially similar Control and Procedures disclosures referenced in ¶56, supra and also attached to the filing as Exhibits 31.1 and 32.1, SOX certifications executed by Defendants Barry and as Exhibits 31.2 and 32.2, SOX certifications executed by Defendant Oswald, each substantially similar to the certifications referenced in ¶¶57-60, supra.

94. On August 21, 2013, the Company issued a press release announcing its fourth fiscal quarter and fiscal year ended June 30, 2013, financial results. The press release was entitled “Prospect Capital Announces June 2013 Fiscal Year Net Investment Income (“NII”) of \$1.57 per Share, Including \$0.38 per Share in June 2013 Quarter, With Fiscal Year NII Exceeding \$1.28 per Share of Paid Dividends and June Quarter NII Exceeding \$0.33 per Share of Paid Dividends”. The press release falsely stated, in part, as follows:

Prospect Capital Corporation (NASDAQ: PSEC) (“Prospect”) today announced financial results for our fourth fiscal quarter and fiscal year ended June 30, 2013.

For the June 2013 quarter, our Net Investment Income (“NII”) was \$92.1 million, an increase of 43% in NII year-over-year, or \$0.38 per weighted average share, exceeding previously announced guidance of \$0.31 to \$0.35 per share. NII per share in the June 2013 quarter exceeded \$0.33 of paid dividends by 15%.

For the June 2013 fiscal year, our NII was \$324.9 million, an increase of 74% from the prior year on a dollars basis. On a weighted average share basis, NII was \$1.63 for the June 2012 fiscal year and \$1.57 for the June 2013 fiscal year. NII per share in the June 2013 fiscal year exceeded \$1.28 of paid dividends by 23%.

We have previously announced our upcoming and increasing cash distributions to shareholders through March 2014, ranging from \$0.110200 per share for August 2013 to \$0.110375 for March 2014. Prospect's closing stock price of \$11.07 as of August 20, 2013 delivers to shareholders an 11.9% current dividend yield.

We have generated cumulative NII in excess of cumulative distributions to shareholders in the June 2013 fiscal year and since Prospect's initial public offering nine years ago. For the June 2013 fiscal year, our NII in excess of distributions to shareholders was \$53.4 million and \$0.22 per share.

Since our IPO nine years ago through our March 2014 distribution, assuming our current share count for upcoming distributions, we will have distributed \$12.27 per share to initial shareholders and \$991 million in cumulative distributions to all shareholders.

Our net asset value per share on June 30, 2013 stood at \$10.72 per share, an increase of \$0.01 per share from March 31, 2013. Our debt to equity ratio stood at 55.7% after subtracting cash and equivalents as of June 30, 2013. We estimate that our net investment income for the current September 2013 quarter will be \$0.30 to \$0.35 per share. Our objective is to grow net investment income per share in the coming quarters by focusing on matched-book funding to finance disciplined and accretive originations across our diversified lines of business.

HIGHLIGHTS

Equity Values:

Net assets as of June 30, 2013: \$2.656 billion

Net asset value per share as of June 30, 2013: \$10.72

Fiscal Year Operating Results:

Net investment income: \$324.92 million

Net investment income per share: \$1.57

Dividends to shareholders per share: \$1.27865

Fourth Fiscal Quarter Operating Results:

Net investment income: \$92.10 million

Net investment income per share: \$0.38

Dividends to shareholders per share: \$0.330375

Fourth Fiscal Quarter Portfolio and Investment Activity:

Portfolio investments in quarter: \$798.76 million

Total portfolio investments at cost at June 30, 2013: \$4.256 billion

Number of portfolio companies at June 30, 2013: 124

* * *

LIQUIDITY AND FINANCIAL RESULTS

Our modestly leveraged balance sheet, with its substantial majority of unencumbered assets, access to multiple funding sources, matched-book funding, and weighting toward unsecured fixed-rate debt, is a source of significant strength. Our debt to equity ratio stood at a modest 55.7% after subtraction of cash and equivalents at June 30, 2013. Our equitized balance sheet also gives us the potential for future earnings upside as we prudently utilize and grow our existing revolving credit facility as well as potentially add additional secured or unsecured term facilities made more attractive by our investment-grade ratings at corporate, revolving facility, and term debt levels.

On March 27, 2012, we renegotiated our credit facility and closed on an expanded five-year revolving credit facility (the “Facility”) for Prospect Capital Funding LLC. As of June 30, 2013, our Facility size stood at \$552.5 million with commitments from 17 lenders. After June 30, 2013, we added an additional bank and the commitments now stand at \$567.5 million. The Facility includes an accordion feature which allows aggregate commitments to be increased to \$650 million without the need for re-approval from existing lenders or the rating agency.

As we make additional investments, we generate additional availability to the extent such investments are eligible to be placed into the borrowing base. The revolving period of the Facility extends through March 2015, with an additional two-year amortization period, with distributions allowed after the completion of the revolving period. Interest on

borrowings under the Facility is one-month Libor plus 275 basis points, with no minimum Libor floor. The Facility continues to carry a high-investment-grade Moody's rating of Aa3.

We also have significantly diversified our counterparty risk. The current count of 18 institutional lenders in our Facility compares to five lenders at June 30, 2010.

Our repeat issuance in the 5-year to 30-year unsecured term debt market has extended our liability duration, thereby better matching our assets and liabilities for balance sheet risk management.

On December 21, 2010, we issued \$150.0 million in principal amount of 6.25% senior unsecured convertible notes, convertible at \$11.35 per common share and due December 2015 ("2015 Converts").

On February 18, 2011, we issued \$172.5 million in principal amount of 5.50% senior unsecured convertible notes, convertible at \$12.73 per common share and due August 2016 ("2016 Converts"). In the March 2012 quarter, we repurchased \$5.0 million of our 2016 Notes.

On April 16, 2012, we issued \$130.0 million in principal amount of 5.375% senior unsecured convertible notes, convertible at \$11.61 per common share and due October 2017 ("2017 Converts").

On August 14, 2012, we issued \$200.0 million in principal amount of 5.75% senior unsecured convertible notes, convertible at \$12.07 per common share and due March 2018 ("2018 Converts").

On December 21, 2012, we issued \$200.0 million in principal amount of 5.875% senior unsecured convertible notes, convertible at \$12.54 per common share and due January 2019 ("2019 Converts", and together with the 2015 Converts, 2016 Converts, 2017 Converts, and 2018 Converts, the "Convertible Notes").

On May 1, 2012, we issued \$100.0 million in principal amount of 6.95% senior unsecured notes due November 2022 (the "2022 Baby Bond Notes"). The 2022 Baby Bond Notes trade on the New York Stock Exchange with ticker PRY and further demonstrate our diversified access to longer-dated funding.

On March 15, 2013, we issued \$250.0 million in aggregate principal amount of 5.875% senior unsecured notes due March 2023 (the "2023 Notes").

On February 16, 2012, we entered into a Selling Agent Agreement for our issuance and sale from time to time of senior unsecured program notes (the "Program Notes", and together with our 2022 Baby Bond Notes, Convertible Notes, and our 2023 Notes, the "Unsecured Notes"). Since initiating the program, we have issued \$430.1 million of Program Notes. These notes were issued with interest rates ranging from 3.28% to 7.00%

with a weighted average rate of 5.63%. These notes mature between February 15, 2018 and August 15, 2043.

The Unsecured Notes are general unsecured obligations of Prospect, with no financial covenants, no technical cross default provisions, and no payment cross default provisions with respect to our revolving credit facility. The Unsecured Notes have no restrictions related to the type and security of assets in which Prospect might invest. These Unsecured Notes have an investment-grade S&P rating of BBB and Kroll rating of BBB+. As of June 30, 2013, Prospect held more than \$3.6 billion of unencumbered assets on its balance sheet to benefit holders of Unsecured Notes and Prospect shareholders.

On May 8, 2013, we entered into an equity distribution agreement relating to at-the-market offerings from time to time of our common stock. During the period from May 8, 2013 to August 21, 2013, we sold approximately 14.2 million shares of our common stock at an average price of \$10.95 per share, and raised \$155.3 million of gross proceeds, with all issuance at prices above net asset value per share and therefore accretive.

We currently have no borrowings under our Facility. Assuming sufficient assets are pledged to the Facility and that we are in compliance with all Facility terms, and taking into account our cash balances on hand, we have over \$660 million of new investment capacity. Any principal repayments, other monetizations of our assets, debt and other capital issuances, or increase in our Facility size would also further increase our investment capacity.

95. On August 21, 2013, Prospect filed with the SEC a Form 10-K which contained the financial results announced in the press release issued the same day. Specifically, the Form 10-K falsely reported the following:

**PROSPECT CAPITAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
(in thousands, except share and per share data)**

	June 30, 2013	June 30, 2012
Assets (Note 4)		
Investments at fair value:		
Control investments (net cost of \$830,151 and \$518,015, respectively)	\$ 811,634	\$ 564,489
Affiliate investments (net cost of \$49,189 and \$44,229, respectively)	42,443	46,116
Non-control/Non-affiliate investments (net cost of \$3,376,438 and \$1,537,069, respectively)	3,318,775	1,483,616
Total investments at fair value (net cost of \$4,255,778 and \$2,099,313, respectively, Note 3)	4,172,852	2,094,221
Investments in money market funds	143,262	118,369
Cash	59,974	2,825
Receivables for:		
Interest, net	22,863	14,219

Other	4,397	784
Prepaid expenses	540	421
Deferred financing costs	44,329	24,415
Total Assets	4,448,217	2,255,254
Liabilities		
Credit facility payable (Notes 4 and 8)	124,000	96,000
Senior convertible notes (Notes 5 and 8)	847,500	447,500
Senior unsecured notes (Notes 6 and 8)	347,725	100,000
Prospect Capital InterNotes® (Notes 7 and 8)	363,777	20,638
Due to Broker	43,588	44,533
Dividends payable	27,299	14,180
Due to Prospect Administration (Note 12)	1,366	658
Due to Prospect Capital Management (Note 12)	5,324	7,913
Accrued expenses	2,345	2,925
Interest payable	24,384	6,723
Other liabilities	4,415	2,210
Total Liabilities	1,791,723	743,280
Net Assets	\$ 2,656,494	\$1,511,974

Components of Net Assets

Common stock, par value \$0.001 per share (500,000,000 common shares authorized; 247,836,965 and 139,633,870 issued and outstanding, respectively) (Note 9)

	\$ 248	\$ 140
Paid-in capital in excess of par (Note 9)	2,739,864	1,544,801
Undistributed net investment income	77,084	23,667
Accumulated realized losses on investments	(77,776)	(51,542)
Unrealized depreciation on investments	(82,926)	(5,092)
Net Assets	\$ 2,656,494	\$1,511,974
Net Asset Value Per Share	\$ 10.72	\$ 10.83

	Year Ended		
	June 30, 2013	June 30, 2012	June 30, 2011
Investment Income			
Interest income: (Note 3)			
Control investments	\$ 106,425	\$ 53,408	\$ 21,747
Affiliate investments	6,515	12,155	11,307
Non-control/Non-affiliate investments	234,013	144,592	101,400
CLO Fund securities	88,502	9,381	—
Total interest income	435,455	219,536	134,454
Dividend income:			
Control investments	78,282	63,144	13,569
Affiliate Investments	728	—	—
Non-control/Non-affiliate investments	3,656	1,733	1,507
Money market funds	39	4	16
Total dividend income	82,705	64,881	15,092
Other income: (Note 10)			
Control investments	16,821	25,464	2,829
Affiliate investments	623	108	190
Non-control/Non-affiliate investments	40,732	10,921	16,911
Total other income	58,176	36,493	19,930
Total Investment Income	576,336	320,910	169,476

Operating Expenses

Investment advisory fees:

Base management fee (Note 12)	69,800	35,836	22,496
Income incentive fee (Note 12)	81,231	46,671	23,555
Total investment advisory fees	<u>151,031</u>	<u>82,507</u>	<u>46,051</u>
Interest and credit facility expenses	76,341	38,534	17,598
Legal fees	1,918	279	1,062
Valuation services	1,579	1,212	992
Audit, compliance and tax related fees	1,566	1,446	876
Allocation of overhead from Prospect Administration (Note 12)	8,737	6,848	4,979
Insurance expense	356	324	285
Directors' fees	300	273	255
Excise tax	6,500	—	—
Other general and administrative expenses	<u>3,084</u>	<u>2,803</u>	<u>3,157</u>
Total Operating Expenses	<u>251,412</u>	<u>134,226</u>	<u>75,255</u>
Net Investment Income	<u>324,924</u>	<u>186,684</u>	<u>94,221</u>
Net realized (loss) gain on investments (Note 3)	(26,234)	36,588	16,465
Net change in unrealized (depreciation) appreciation on investments (Note 3)	<u>(77,834)</u>	<u>(32,368)</u>	<u>7,552</u>
Net Increase in Net Assets Resulting from Operations	<u>\$ 220,856</u>	<u>\$ 190,904</u>	<u>\$ 118,238</u>
Net increase in net assets resulting from operations per share: (Notes 11 and 15)	<u>\$ 1.07</u>	<u>\$ 1.67</u>	<u>\$ 1.38</u>
Weighted average shares of common stock outstanding:	<u>207,069,971</u>	<u>114,394,554</u>	<u>85,978,757</u>

	Year Ended		
	June 30, 2013	June 30, 2012	June 30, 2011
Increase in Net Assets from Operations:			
Net investment income	\$ 324,924	\$ 186,684	\$ 94,221
Net (loss) gain on investments	(26,234)	36,588	16,465
Net change in unrealized (depreciation) appreciation on investments	<u>(77,834)</u>	<u>(32,368)</u>	<u>7,552</u>
Net Increase in Net Assets Resulting from Operations	<u>220,856</u>	<u>190,904</u>	<u>118,238</u>
Dividends to Shareholders:			
Distribution of net investment income	(271,507)	(136,875)	(94,326)
Distribution of return of capital	<u>—</u>	<u>(4,504)</u>	<u>(11,841)</u>
Total Dividends to Shareholders	<u>(271,507)</u>	<u>(141,379)</u>	<u>(106,167)</u>
Capital Share Transactions:			
Net proceeds from capital shares sold	1,180,899	338,270	381,316
Less: Offering costs of public share offerings	(1,815)	(708)	(1,388)
Reinvestment of dividends	<u>16,087</u>	<u>10,530</u>	<u>10,934</u>
Net Increase in Net Assets Resulting from Capital Share Transactions	<u>1,195,171</u>	<u>348,092</u>	<u>390,862</u>
Total Increase in Net Assets:	<u>1,144,520</u>	<u>397,617</u>	<u>402,933</u>
Net assets at beginning of year	1,511,974	1,114,357	711,424
Net Assets at End of Year	<u>\$ 2,656,494</u>	<u>\$ 1,511,974</u>	<u>\$ 1,114,357</u>
Capital Share Activity:			

Shares sold	101,245,136	30,970,696	37,494,476
Shares issued to acquire controlled investments	5,507,381	—	—
Shares issued through reinvestment of dividends	1,450,578	1,056,484	1,025,352
Net increase in capital share activity	108,203,095	32,027,180	38,519,828
Shares outstanding at beginning of year	139,633,870	107,606,690	69,086,862
Shares Outstanding at End of Year	247,836,965	139,633,870	107,606,690

	Year Ended		
	June 30, 2013	June 30, 2012	June 30, 2011
Cash Flows from Operating Activities:			
Net increase in net assets resulting from operations	\$ 220,856	\$ 190,904	\$ 118,238
Net realized loss (gain) on investments	26,234	(36,588)	(16,465)
Net change in unrealized depreciation (appreciation) on investments	77,834	32,368	(7,552)
Amortization of discounts and premiums	(11,016)	(7,284)	(23,035)
Amortization of deferred financing costs	8,232	8,511	5,365
Payment-in-kind interest	(10,947)	(5,647)	(9,634)
Structuring fees	(52,699)	(8,075)	(13,460)
Change in operating assets and liabilities:			
Payments for purchases of investments	(2,980,320)	(901,833)	(930,243)
Proceeds from sale of investments and collection of investment principal	931,534	500,952	285,862
Net (increase) decrease of investments in money market funds	(24,893)	(58,466)	8,968
Increase in interest receivable, net	(8,644)	(4,950)	(3,913)
(Increase) decrease in other receivables	(3,613)	(517)	153
(Increase) decrease in prepaid expenses	(119)	(320)	270
Decrease in other assets	—	—	534
Decrease in due to Broker	(945)	—	—
Increase (decrease) in due to Prospect Administration	708	446	(82)
Increase (decrease) in due to Prospect Capital Management	(2,589)	207	(1,300)
(Decrease) increase in accrued expenses	(580)	1,052	(1,998)
Increase in interest payable	17,661	2,720	3,817
Increase (decrease) in other liabilities	2,205	(1,361)	2,866
Net Cash Used In Operating Activities:	(1,811,101)	(287,881)	(581,609)
Cash Flows from Financing Activities:			

Borrowings under credit facility (Note 4)	223,000	726,800	465,900
Payments under credit facility (Note 4)	(195,000)	(715,000)	(482,000)
Issuance of Senior Convertible Notes (Note 5)	400,000	130,000	322,500
Repurchases under Senior Convertible Notes (Note 5)	—	(5,000)	—
Issuance of Senior Unsecured Notes	247,725	100,000	—
Issuance of Prospect Capital InterNotes® (Note 7)	343,139	20,638	—
Financing costs paid and deferred	(28,146)	(17,651)	(13,061)
Net proceeds from issuance of common stock	1,121,648	177,699	381,316
Offering costs from issuance of common stock	(1,815)	(708)	(1,388)
Dividends paid	(242,301)	(127,564)	(91,247)
Net Cash Provided By Financing Activities:	1,868,250	289,214	582,020
Total Increase in Cash	57,149	1,333	411
Cash balance at beginning of year	2,825	1,492	1,081
Cash Balance at End of Year	\$ 59,974	\$ 2,825	\$ 1,492
Cash Paid For Interest	\$ 45,363	\$ 24,515	\$ 6,101
Non-Cash Financing Activity:			
Amount of shares issued in connection with dividend reinvestment plan	\$ 16,087	\$ 10,530	\$ 10,934
Amount of shares issued in conjunction with controlled investments	\$ 59,251	\$ 160,571	\$ —

96. The August 21, 2013, Form 10-K contained substantially similar Control and Procedures disclosures referenced in ¶56, supra and also attached to the filing as Exhibits 31.1 and 32.1, SOX certifications executed by Defendants Barry and as Exhibits 31.2 and 32.2, SOX certifications executed by Defendant Oswald, each substantially similar to the certifications referenced in ¶¶57-60, supra.

97. On November 4, 2013, the Company issued a press release announcing its first fiscal quarter financial results. The press release was entitled “Prospect Capital Announces 6.9% Increase in Net Income per Share for First Fiscal Quarter Over Prior Year First Fiscal Quarter”. The press release falsely stated, in part, as follows:

Prospect Capital Corporation (NASDAQ: PSEC) (“Company” or “Prospect”) today announced financial results for our first fiscal quarter ended September 30, 2013.

For the September 2013 quarter, our net investment income (“NII”) was \$82.3 million or \$0.32 per weighted average number of shares for the quarter. For the September 2012 quarter, our NII was \$74.0 million or \$0.46 per weighted average number of shares for the quarter. NII increased year-over-year by 11.2% on a dollars basis and decreased by 30.4% on a per share basis due to non-recurring income in the September 2012 period.

For the September 2013 quarter, our net increase in net assets resulting from operations (“NI”) was \$79.9 million or \$0.31 per weighted average number of shares for the quarter. For the September 2012 quarter, our NI was \$47.2 million or \$0.29 per weighted average number of shares for the quarter. NI increased year-over-year by 69.1% and 6.9% on a dollars and per share basis, respectively.

We have previously announced our upcoming and increasing cash distributions to shareholders through June 2014, ranging from \$0.110250 per share for November 2013 to \$0.110450 for June 2014. Prospect's closing stock price of \$11.34 as of November 1, 2013 delivers to shareholders a current dividend yield of 11.7%.

We have generated cumulative NII in excess of cumulative distributions to shareholders in the June 2013 fiscal year and since Prospect's initial public offering nine years ago. For the June 2013 fiscal year, our NII in excess of distributions to shareholders was \$53.4 million and \$0.26 per share. For the September 2013 quarter, distributions were in excess of NII by \$4.3 million and \$0.01 per share, distributing some of the excess which was built up in the previous fiscal year.

Since our IPO nine years ago through our June 2014 distribution, assuming our current share count for upcoming distributions, we will have distributed \$12.60 per share to initial shareholders and \$1.1 billion in cumulative distributions to all shareholders.

Our net asset value per share on September 30, 2013 stood at \$10.72 per share, flat to the value at June 30, 2013. Our debt to equity ratio stood at a modest 53.7% after subtraction of cash and equivalents as of September 30, 2013, down from 55.7% as of June 30, 2013. We estimate that our NII for the current December 2013 quarter will be \$0.28 to \$0.33 per share. Our objective is to grow net investment income per share in the coming quarters by focusing on matched-book funding to finance disciplined and accretive originations across our diversified lines of business.

HIGHLIGHTS

Equity Values:

Net assets as of September 30, 2013: \$2.910 billion

Net asset value per share as of September 30, 2013: \$10.72

First Fiscal Quarter Operating Results:

Net investment income: \$82.34 million

Net investment income per share: \$0.32

Dividends to shareholders per share: \$0.330600

First Fiscal Quarter Portfolio and Investment Activity:

Portfolio investments in quarter: \$556.84 million

Total portfolio investments at cost at September 30, 2013: \$4.642 billion

Number of portfolio companies at September 30, 2013: 129

98. On November 4, 2013, the Company filed its Form 10-Q with the SEC. The 10-Q contained the same financial information as the press release issued and dated the same day. It also contained substantially similar Control and Procedures disclosures referenced in ¶56, supra and also attached to the filing as Exhibits 31.1 and 32.1, SOX certifications executed by Defendants Barry and as Exhibits 31.2 and 32.2, SOX certifications executed by Defendant Oswald, each substantially similar to the certifications referenced in ¶¶57-60, supra.

99. On February 3, 2014, the Company issued a press release announcing its second quarter financial results. The press release was entitled “Prospect Capital Announces 83.6% Increase in Net Income for Second Fiscal Quarter Over Prior Year Second Fiscal Quarter”. The press release falsely stated, in part, as follows:

Prospect Capital Corporation (NASDAQ: PSEC) (“Company” or “Prospect”) today announced financial results for our second fiscal quarter ended December 31, 2013.

For the December 2013 quarter, our net increase in net assets resulting from operations (“NI”) was \$85.4 million or \$0.30 per weighted average number of shares for the quarter. For the December 2012 quarter, our NI was \$46.5 million or \$0.24 per weighted average number of shares for the quarter. NI increased year-over-year by 83.6% and 25.0% on a dollars and per share basis, respectively.

For the six months ended December 31, 2013, our NI was \$165.3 million or \$0.61 per weighted average number of shares for the period. For the six months ended December 31, 2012, our NI was \$93.7 million or \$0.52 per weighted average number of shares for the period. NI increased year-over-year by 76.3% and 17.3% on a dollars and per share basis, respectively.

For the December 2013 quarter, our net investment income (“NII”) was \$92.2 million or \$0.32 per weighted average number of shares for the quarter. For the December 2012 quarter, our NII was \$99.2 million or \$0.51 per weighted average number of shares for

the quarter. NII decreased year-over-year primarily due to significant non-recurring dividend income in the December 2012 period.

For the six months ended December 31, 2013, our NII was \$174.6 million or \$0.64 per weighted average number of shares for the period. For the six months ended December 31, 2012, our NII was \$173.2 million or \$0.97 per weighted average number of shares for the period. NII decreased on a per share basis due to significant non-recurring income in the 2012 period.

We have previously announced our upcoming and increasing monthly cash distributions to shareholders through September 2014, ranging from \$0.110350 per share for February 2014 to \$0.110525 per share for September 2014. Prospect's closing stock price of \$10.87 as of January 31, 2014 delivers to shareholders a current dividend yield of 12.2%.

We have generated cumulative NII in excess of cumulative distributions to shareholders since Prospect's initial public offering ("IPO") ten years ago. For the June 2013 fiscal year, our NII in excess of distributions to shareholders was \$53.4 million and \$0.26 per share. For the six months ended December 31, 2013, distributions were in excess of NII by \$8.8 million and \$0.03 per share, distributing some of the excess which was built up in the previous two fiscal years.

Since our IPO ten years ago through our September 2014 distribution, assuming our current share count for upcoming distributions, we will have distributed \$12.93 per share to initial shareholders and \$1.2 billion in cumulative distributions to all shareholders.

Our net asset value per share on December 31, 2013 stood at \$10.73 per share, an increase of \$0.01 per share from September 30, 2013 and June 30, 2013. Our debt to equity ratio stood at a modest 48.0% after subtraction of cash and equivalents as of December 31, 2013, down from 53.7% as of September 30, 2013 and 55.7% as of June 30, 2013. We estimate that our NII for the current March 2014 quarter will be \$0.28 to \$0.33 per share. Our objective is to grow net investment income per share in the coming quarters by focusing on matched-book funding to finance disciplined and accretive originations across our diversified lines of business.

HIGHLIGHTS

Equity Values:

Net assets as of December 31, 2013: \$3.231 billion

Net asset value per share as of December 31, 2013: \$10.73

Second Fiscal Quarter Operating Results:

Net investment income: \$92.22 million

Net investment income per share: \$0.32

Dividends to shareholders per share: \$0.330825

Fiscal Year to Date Operating Results:

Net investment income: \$174.55 million
Net investment income per share: \$0.64
Net increase in net assets resulting from operations: \$165.26 million
Net increase in net assets per share resulting from operations: \$0.61
Dividends to shareholders per share: \$0.661425

Second Fiscal Quarter Portfolio and Investment Activity:
Portfolio investments in quarter: \$607.66 million
Total portfolio investments at cost at December 31, 2013: \$4.976 billion
Number of portfolio companies at December 31, 2013: 130

100. On February 3, 2014, the Company filed its Form 10-Q with the SEC. The 10-Q contained the same financial information as the press release dated February 7, 2013. It also contained substantially similar Control and Procedures disclosures referenced in ¶56, supra and also attached to the filing as Exhibits 31.1 and 32.1, SOX certifications executed by Defendants Barry and as Exhibits 31.2 and 32.2, SOX certifications executed by Defendant Oswald, each substantially similar to the certifications referenced in ¶¶57-60, supra.

101. Each of the foregoing statements regarding Prospect's revenues, losses and internal controls were materially false and misleading when made. In violation of generally accepted accounting principles ("GAAP"), Prospect fraudulently announced inflated revenues, earnings and earnings per share. Prospect further misrepresented its internal controls as being adequate when, in fact, they were inadequate and permitted the improper recordation of profits and losses during the Class Period. Prospect further misrepresented its financial results and propriety of its accounting and consolidation of subsidiaries. When these misrepresentations became public, Plaintiff and the Class were injured.

VII. LOSS CAUSATION/ECONOMIC LOSS

102. During the Class Period, as detailed herein, Defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated the Company's stock price, and operated as a fraud or deceit on acquirers of the Company's common stock. As detailed

above, when the truth about Prospect's accounting misconduct and its lack of adequate internal controls was revealed, the Company's common stock declined as the prior artificial inflation no longer propped up its stock price. The decline in Prospect's common stock price was a direct result of the nature and extent of Defendants' fraud finally being revealed to investors and the market. The timing and magnitude of the common stock price decline negates any inference that the loss suffered by Plaintiff and other members of the Class was caused by changed market conditions, macroeconomic or industry factors or Company-specific facts unrelated to the Defendants' fraudulent conduct. The economic loss, *i.e.*, damages, suffered by Plaintiff and other Class members was a direct result of Defendants' fraudulent scheme to artificially inflate the Company's common stock price and the subsequent significant decline in the value of the Company's common stock when Defendants' prior misrepresentations and other fraudulent conduct was revealed.

103. At all relevant times, Defendants' materially false and misleading statements or omissions alleged herein directly or proximately caused the damages suffered by the Plaintiff and other Class members. Those statements were materially false and misleading through their failure to disclose a true and accurate picture of Prospect's business, operations and financial condition, as alleged herein. Throughout the Class Period, Defendants publicly issued materially false and misleading statements and omitted material facts necessary to make Defendants' statements not false or misleading, causing Prospect's common stock price to be artificially inflated. Plaintiff and other Class members purchased Prospect's common stock at those artificially inflated prices, causing them to suffer the damages complained of herein.

VIII. NO SAFE HARBOR

104. The statutory safe harbor under the Private Securities Litigation Reform Act of 1995, which applies to forward-looking statements under certain circumstances, does not apply to any of the allegedly false and misleading statements plead in this complaint. The statements alleged to be false and misleading herein all relate to then-existing facts and conditions. In addition, to the extent certain of the statements alleged to be false may be characterized as forward-looking, they were not adequately identified as “forward-looking statements” when made, and there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor is intended to apply to any forward-looking statements plead herein, Defendants are liable for those false forward-looking statements because, at the time each of those forward-looking statements was made, the particular speaker had actual knowledge that the particular forward-looking statement was materially false or misleading, and/or the forward-looking statement was authorized and/or approved by an executive officer of Prospect who knew that those statements were false, misleading or omitted necessary information when they were made.

COUNT I
(Against All Defendants)
Violations of Section 10(b) of the Exchange Act and SEC Rule 10b-5

105. Plaintiff repeats and re-alleges each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

106. This Count is asserted against Defendants and is based upon Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and SEC Rule 10b-5 promulgated thereunder.

107. During the Class Period, Defendants, singly and in concert, directly engaged in a common plan, scheme and unlawful course of conduct, pursuant to which they knowingly or

recklessly engaged in acts, transactions, practices and course of business which operated as fraud and deceit upon Plaintiff and the other members of the Class, and failed to disclose material information in order to make the statements made, in light of the circumstances under which they were made, not misleading to Plaintiff and the other members of the Class. The purpose and effect of said scheme, plan and unlawful course of conduct was, among other things, to induce Plaintiff and the other members of the Class to purchase Prospect's common stock during the Class Period at artificially inflated prices.

108. As a result of the failure to disclose material facts, the information Defendants disseminated to the investing public was materially false and misleading as set forth above, and the market price of Prospect's common stock was artificially inflated during the Class Period. In ignorance of the false and misleading nature of the statements described above and the deceptive and manipulative devices and contrivances employed by Defendants, Plaintiff and other members of the Class relied, to their detriment, on the integrity of the market price of Prospect's common stock in purchasing shares of the Company. Had Plaintiff and the other members of the Class known the truth, they would not have purchased said shares or would not have purchased them at the inflated prices that were paid.

109. Plaintiff and other members of the Class have suffered damages as a result of the unlawful conduct alleged herein in an amount to be proved at trial.

110. By reason of the foregoing, Defendants directly violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder in that they: (a) employed devices, schemes and artifices to defraud; (b) failed to disclose material information; or (c) engaged in acts, practices and a course of business which operated as a fraud and deceit upon Plaintiff and

the other members of the Class in connection with their purchases of Prospect's common stock during the Class Period.

COUNT II
(Against the Individual Defendants)
Violations of Section 20(a) of the Exchange Act

111. Plaintiff repeats and re-alleges each and every allegation contained in each of the foregoing paragraphs as if set forth fully herein.

112. Defendants, by virtue of their positions, stock ownership and/or specific acts described above, were, at the time of the wrongs alleged herein, controlling persons within the meaning of Section 20(a) of the Exchange Act.

113. Defendants had the power and influence – and exercised such power and influence – as to cause Prospect to engage in the unlawful conduct and practices complained of herein.

114. By reason of the conduct alleged in Count I of this Complaint, Defendants are jointly and severally liable to the same extent as the Company for the aforesaid unlawful conduct, and are liable to Plaintiff and to the other members of the Class for the damages which they suffered in connection with their purchases of Prospect common stock during the Class Period.

IX. PRAYER FOR RELIEF

WHEREFORE, Plaintiff, on his own behalf and on behalf of the Class, prays for judgment as follows:

(a) Determining this action to be a proper class action and certifying Plaintiff as class representative under Rule 23 of the Federal Rules of Civil Procedure;

(b) Awarding compensatory damages in favor of Plaintiff and the other members of the Class against Defendants, jointly and severally, for the damages sustained as a result of the wrongdoings of Defendants, together with interest thereon;

(c) Awarding Plaintiff the fees and expenses incurred in this action including reasonable allowance of fees for Plaintiff's attorneys and experts;

(d) Granting extraordinary equitable and/or injunctive relief as permitted by law; and

(e) Granting such other and further relief as the Court may deem just and proper.

XI. JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

DATED: May 28, 2014

**WOLF HALDENSTEIN ADLER
FREEMAN & HERZ LLP**

By: 

Gregory Mark Nespole
270 Madison Avenue
New York, New York 10016
Tel: 212-545-4600
Fax: 212-545-4653
Email: Nespole@whafh.com

BLOCK & LEVITON LLP

Jeffrey C. Block

Whitney E. Street

Steven P. Harte

155 Federal Street, Suite 400

Boston, MA 02110

Tel: 617-398-5600

Fax: 617-507-6020

Email: Jeff@blockesq.com

Whitney@blockesq.com

Steven@blockesq.com

Attorneys for the Plaintiff

753270

**PLAINTIFF'S CERTIFICATION OF SECURITIES
FRAUD CLASS ACTION COMPLAINT**

I, Grant Willey, hereby certify that the following is true and correct to the best of my knowledge, information and belief:

2 I have reviewed the facts and allegations against Prospect Capital Corporation (NASDAQ: PSEC).

3 I am willing to serve as a representative party on behalf of the class in this action, including providing testimony at deposition and trial, if necessary.

4 My transactions in Prospect Capital Corporation securities during the Class Period are as follows:


DATE	TRANSACTION (buy or sell)	NO. OF SHARES	PRICE PER SHARE
07/30/2013	BUY	800	\$ 10.98
08/26/2013	BUY	500	\$ 11.4099
02/06/2014	SELL	1300	\$ 10.92
02/06/2014	BUY	1300	\$ 10.90
05/13/2014	BUY	44	\$ 10.10
05/13/2014	BUY	156	\$ 10.10

5 I did not purchase these securities at the direction of counsel, or in order to participate in any private action arising under the federal securities laws.

6 During the three-year period preceding the date of my signing this Certification, I have never sought to be appointed nor have I ever been appointed as lead plaintiff or class representative in any class action arising under the securities laws of the United States.

7 I will not accept any payment for serving as a representative party on behalf of the Class beyond my *pro rata* share of any possible recovery, except for an award, as ordered or approved by the court, for reasonable costs and expenses (including lost wages) directly relating to my representation of the Class.

Signed under the penalties of perjury this 20th day of May 2014.


 Grant Willey